

REPUBLIC OF THE PHILIPPINES  
OFFICE OF THE PRESIDENT

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. April 15, 2011  
Date of Report (Date of earliest event reported)
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. PETRON CORPORATION  
Exact name of issuer as specified in its charter
5. Philippines  
Province, country or other jurisdiction of incorporation
6.  (SEC Use Only)  
Industry Classification Code:
7. SMC Head Office Complex, #40 San Miguel Avenue, Mandaluyong City 1550  
Address of principal office Postal Code
8. (0632) 886-3888; 884-9200  
Issuer's telephone number, including area code
9. Petron Megaplaza, 358 Sen. Gil Puyat Avenue, Makati City  
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	9,375,104,497 Shares
Preferred Stock	100,000,000 Shares

11. Are any or all of these securities listed on the Philippine Stock Exchange.

Yes [X] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

Common Stocks  
Preferred Stocks

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes  No

(b) has been subject to such filing requirements for the past 90 days.

Yes  No

13. The aggregate market value of the voting stock held by non-affiliates of the Registrant is **₱15,035,152,634.32** billion based on the price of **₱18.82/per share** as of the last trading day of the year, **December 30, 2010**.

#### DOCUMENTS INCORPORATED BY REFERENCE

None

## PART I - BUSINESS

### (A) Description of Business

#### (1) Business Development

##### Petron

Petron Corporation was incorporated in the Philippines in 1966 as Esso Philippines, Inc. The company was renamed Petrophil Corporation in 1973 when the Philippine National Oil Company (PNOC) acquired Esso. In 1985, Petrophil Corporation and Bataan Refinery Corporation (formerly the Standard Vacuum Refining Corporation) were merged with Petrophil as the surviving Corporation. Petrophil later changed its corporate name to Petron Corporation.

On March 13, 2008, Aramco Overseas Company B.V. (AOC), one of the Company's major shareholders in 1994, entered into a share purchase agreement with Ashmore Investment Management Limited and subsequently issued a Transfer Notice to PNOC to signify its intent to sell its 40% equity stake in Petron. The Philippine National Oil Corporation, once holding 40% of Petron's capital stock, waived its right of first offer to purchase AOC's interest in Petron. Eventually, SEA Refinery Holdings B.V. (SEA BV), a company incorporated in the Netherlands and owned by funds managed by the Ashmore Group acquired Saudi Aramco's 40% interest in Petron in July 2008. Pursuant to the Securities Regulation Code, Ashmore complied with the requirements of mandatory tender offer.

On October 6, 2008, PNOC informed SEA BV and Petron of its intent to dispose its 40% stake in the company. In December 2008, the 40% interest of PNOC in Petron was finally purchased by SEA Refinery Corporation (SRC), a domestic corporation wholly-owned by SEA BV. In a related development, SEA BV sold a portion of its interest in Petron equivalent to 10.1% of the issued shares to SRC. Thus, at the turn of the year, the capital structure of Petron was as follows: SRC - 50.10%; SEA BV - 40.47%; and the general public - 9.43%; making SEA BV's direct and indirect ownership interest in Petron at 90.57%. Hence, SEA BV is the company's parent company as of December 31, 2008.

On December 24, 2008, San Miguel Corporation (SMC) and SEA BV entered into an Option Agreement granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary SRC. The option may be exercised by SMC within a period of two years from December 24, 2008. Under the Option Agreement, it was provided that SMC will have representation in the Petron Board and Management. In the implementation of the Option Agreement between SMC and SEA BV, SMC representatives were elected to the Board and appointed as senior officers last January 8 and February 27, 2009.

In the February 27, 2009 Board meeting, the Board endorsed the amendment of the Articles of Incorporation to include the generation and sale of electric power in its primary purpose and the increase of its capital stock from the current P10 billion to P25 billion through the issuance of preferred shares in order to raise funds for the Company's expansion programs, and possibly, to reduce some of the company's debts. The stockholders approved both items in May 2009. In October 2009, the Board approved the amendment of Petron's Articles of Incorporation to reclassify a total of 624,895,503 unissued common shares to preferred shares with par value of P1.00 per share, which also includes a waiver of the stockholders' pre-emptive rights on the issuance of preferred shares. Features of said shares were approved by the Executive Committee on November 25, 2009.

In November 2009, the requirements for the registration statement of Petron's preferred shares, the Preliminary Prospectus, were submitted to the SEC. The application for listing of preferred shares was

also subsequently filed with the PSE. By written assent, majority of the stockholders voted for the amendment of the reclassification of unissued common shares to preferred shares.

The following year, the SEC approved Petron's amendment to its Articles of Incorporation to include preferred shares in the composition of its authorized capital stock. On January 22, 2010, the SEC favorably considered the Final Prospectus and the Issue Management and Underwriting Agreement. The SEC subsequently issued an Order permitting the sale of securities on February 12, 2010. Similarly, the PSE also approved the issuance of 100,000,000 preferred shares, which was offered to the public from February 15 to February 26, 2010. The shares were listed at the Philippine Stock Exchange on March 5, 2010.

In connection with the inclusion of the generation and sale of electric power in the Company's Primary Purpose, the Company received from the Department of Energy the agency's endorsement dated January 15, 2010 of the corresponding amendment of Petron's Articles of Incorporation. The Company has submitted all the requirements to the SEC in February 2010 and is now awaiting approval.

At its April 29, 2010 Meeting, the Board endorsed the amendment of the Parent Company's Articles of Incorporation and By-Laws increasing the number of directors from ten (10) to fifteen (15) and quorum from six (6) to eight (8). The same was approved by the stockholders during their annual meeting on July 12, 2010. The amendment was approved by the SEC on August 24, 2010.

On April 30, 2010, SMC informed Petron of its intention to exercise its option to acquire forty percent (40%) of SRC's outstanding capital stock, with the remaining sixty percent (60%) to be exercised by SMC not later than December 23, 2010. SMC submitted its Tender Offer Report with the SEC, offering to acquire the common shares owned by the public. The tender offer period was opened from May 5 to June 2, 2010. A total of 184,702,538 Petron common shares tendered were crossed at the PSE on June 8, 2010, which is equivalent to approximately 1.97% of the issued and outstanding common stock of Petron.

On July 30, 2010, the Petron Corporation Employees' Retirement Plan (PCERP) bought 2,276,456,097 common shares in Petron comprising 24.025% of the total outstanding capital stock thereof from SEA Refinery Holdings B. V. The purchase and sale transaction was executed on the board of the Philippine Stock Exchange, at the price of ₱7.20 per share.

In relation to the option agreement outlined above, SMC exercised its option to acquire 40% of the outstanding common stock of SEA BV on June 15, 2010. As a result of the exercise of the option and the acquisition of the tendered shares, SMC beneficially owns and controls 2,063,456,764 of the Petron's common shares or approximately 22% of the total outstanding common shares of Petron. Subsequently in September 2010, SMC purchased an additional 1,517,637,398 common shares of Petron from SEA BV.

In December 2010, SMC finally exercised its option to acquire the remaining 60% of SRC's shares.

The registered office address of Petron and its Philippine-based subsidiaries (except Petron Freeport Corporation which has its principal office in the Subic Special Economic Zone) is at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

## **Subsidiaries**

At present, Petron has seven (7) subsidiaries, namely:

- **New Ventures Realty Corporation** (NVRC) is a realty firm established on August 24, 1995. In October 2008, the Petron Retirement Fund (PRF) increased its equity ownership in NVRC to 60% of the issued shares. Thus, regardless of the foreign equity movements in Petron,

PRF's 60% ownership in NVRC and the latter's eligibility to own land is not affected. NVRC is authorized to acquire and develop land but it does not engage in the subdivision business. Land suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC, which are then leased to Petron for use in the latter's operation. NVRC's wholly-owned subsidiary, Las Lucas Development Corporation, which was acquired in 2003, was later renamed as Las Lucas Construction & Development Corporation as approved by the SEC in September 2009.

- **Petrogen Insurance Corporation** or Petrogen is a wholly owned subsidiary of Petron Corporation incorporated on August 23, 1996. It serves the insurance requirements of Petron and its allied business partners such as contractors, suppliers and dealers. Pursuant to the Insurance Commission's Memo Circular requiring all life and non-life insurance companies to increase their paid up capital to P200 million, the Petrogen Board, on May 5, 2009, approved the additional increase of P75 thousand shares to the existing P125 thousand shares.
- **Overseas Insurance Corporation, Ltd.** or Ovincor was incorporated on November 16, 1995 under the laws of Bermuda for the purpose of expediting the reinsurance of Petron's insurable interests as covered by Petrogen Insurance Corporation. Reinsurance includes the insurance cover for the Refinery, the bulk plants and service station properties, petroleum and cargo insurance and performance bonds for Petron contractors and haulers as well.
- **Petron Foundation, Inc.** (PFI) was incorporated on July 25, 1996. PFI was created to function and operate as a charitable and research foundation; to handle social, environmental, and music and arts development projects of Petron; to institutionalize and intensify Petron's active involvement in corporate and social responsibility projects; to support scholarship programs for financially-handicapped but deserving students; and to participate in other social projects supported by Petron. It has successfully forged partnerships with local government units, non-governmental organizations and international organizations such as the United States Agency for International Development (USAID) for the implementation of its projects.
- **Petron Freeport Corporation** (formerly Petron Treats Subic, Inc) was incorporated on November 6, 2003. The company is also registered with the Subic Bay Metropolitan Authority (SBMA) as a Subic Bay Freeport (SBF) Enterprise. PFC is engaged in the business of importing, transporting, trading and retailing petroleum products and related products. As a registered enterprise of SBF enterprise, PFC is entitled to tax-free and duty-free importation of raw materials and capital equipment for use solely within SBF. PFC has two (2) divisions--Retail and Manufacturing. The retail division handles the service station operations (i.e., forecourt, quick-service restaurant, and locators). The Manufacturing Division is engaged in refining, distilling and manufacturing any and all kinds of petroleum products, oil, gas and other vehicle substances. Direct operations of the Retail facilities and Manufacturing Plant of PFC allows Petron to deal in the business of purchasing, marketing, distributing and trading petroleum, oil, gas and related products.
- **Petron Marketing Corporation** (PMC) was incorporated on January 27, 2004 with the same business purpose as the Petron Freeport Corporation. Petron Marketing Corporation or PMC is a wholly-owned subsidiary of Petron Corporation. By the first half of 2010, PMC operated sixteen (16) outlets at various locations. Thirteen of these service stations with convenience stores (Treats), two are stand-alone Treats convenience stores (i.e., no fuel refilling facilities), while one is a micro-filling station. Fourteen of these stations house several locators which contribute additional income for the subsidiary. PMC also operated twenty-three (23) quick-service restaurants (QSRs) which are located at our various service stations.

Recently, PMC received Management's new directive to convert COCO (company-owned company-operated) sites into CODO (company-owned dealer-operated). Following this mandate, PMC turned over thirteen (13) service stations to third party dealers by the end of the year. By 2011, PMC expects to turn over the remaining two service stations. With this new direction, PMC will concentrate in the Franchising Business and support Petron Reseller's network expansion program through providing manpower for the start up operations and assistance in the operations of stations with newly-appointed dealers.

- **Petron Singapore Trading Pte. Ltd.** (PSTPL) was established in 2010 as Petron's trading subsidiary in Singapore. The subsidiary aims to optimize crude procurement and participate in Singapore's Global Trader Program (GTP), which allows the Company access to a wider selection of crude alternatives, resulting in further optimization of Petron's crude selection.

The subsidiaries have no plans of engaging in other line of products or services than that provided for the promotion and enhancement of Petron, particularly its service station business.

Petron Corporation and any of its subsidiaries have not been the subject of any bankruptcy, receivership or similar proceedings.

## **Operating Highlights**

### **National Sales Division**

Based on estimated industry data for 2010, Petron Corporation is overall market leader at 38.2%, or 10.4% higher than Shell. This was achieved through the opening of new service stations in strategic locations, introduction of new products, launching of nationwide and localized sales promos, and acquisition of additional industrial accounts. Petron maintained its leadership in all fuel sectors, while it is a strong second in the lubricant business.

Reseller's 2010 sales volume increased by 3.0%, largely attributed to the completion of 400 new outlets nationwide since 2009. Increase in base network sales can also be attributed to the introduction of two new premium products, Blaze 100 and Turbo Diesel which were both pioneering fuels in their respective sectors; as well as to the closure of FPIC pipeline which affected fuel supply in several Shell and Chevron Metro Manila outlets. Growth was also supported by dealers' continued solicitation of small commercial accounts.

Industrial-Civil 2010 volume improved by 23.9% primarily due to reclassification of privatized NPC plants to IPP. Backing out volume of reclassified NPC plants, Industrial-Civil's growth will be tempered to 8.2%. Growth in Industrial-Civil was hinged on high power demand due to elections and El Niño in 1H 2010 and unplanned shutdown of Sual and Pagbilao coal-fired power plants in 2H 2010. Growth was likewise backed-up by the acquisition of new and competitive accounts.

Meanwhile, Petron's 2010 NPC sales dipped to about less than half of 2009 levels due to reclassification of privatized NPC plants to Industrial-Civil sector. However, adding back volume of privatized plants to NPC, sales would have improved by 21.6%.

Gasul sales slid by 0.9% versus 2009 primarily due to shift of customers from branded LPG to independent brands due to increasing bottled LPG prices which favored bulk supplier Liquegaz.

Lube sales grew by 1.2% primarily due to higher sales to PSCs, bulk traders, and rebrand accounts.

## Refinery

Year 2010 for Petron Bataan Refinery is highlighted by major firsts, momentous achievements, and exceptional performances, which include the following:

1. The approval of the Petron board for the Refinery Master Plan Phase 2 (RMP-2) Upgrade last December 1. Front End Engineering (FEED) and Basic Engineering Design (BED) contracts have been awarded to selected technology Licensors.
2. Ground breaking ceremony for the Refinery Solid Fuel-Fired Boilers (RSFFB) last April 9. Engineering, Procurement and Construction (EPC) and site development have been started thereafter and the plant is expected to be operational by 2<sup>nd</sup> half 2012.
3. Passing the Integrated Management System (IMS) surveillance audit by TUV-SUD-PSB, Inc. last May 17-19
4. Blending of first batch of Pinoy Gasoline and Blaze 100 which was made available in October and November, respectively
5. The successful SWF-1 revamp in January and on scheduled turnaround / maintenance of SRU, Petro-FCC, and APS-1 in January, March, and September, respectively
6. The 14<sup>th</sup> Continuous Improvement and Productivity (CIP) Technical Conference together with the launching of CIP Plus in October

The Refinery implemented optimization programs during the year in the areas of yield improvement and operating cost optimization such as the following:

- **Diesel Yield Maximization** - higher distillate yield by 1.4 MBCD due to continuous optimization of Diesel T90, i.e. maximization of diesel recovery at pipestills, minimization of quality giveaway and utilization of low T90 imported diesel.
- **Gasoline Blending Optimization** - lesser utilization of Alkylate import by 0.7 MBCD as blending component due to maximized utilization of naphtha in gasoline, minimization of octane giveaway and re-blending of high-quality gasoline imports to upgrade to higher grade of gasoline.
- **Higher Conversion of Black Products to White** - optimization of Petro FCC operation which resulted in higher actual Petro FCC conversion of 80.2% than target of 79.1%.
- **Maximization of Benzene/Toluene** - the Refinery was able to operate the BTX unit even with CCR unit running without the Catalyst Regeneration section.
- **Propylene Recovery Improvement** - an enhanced unit control scheme was implemented which resulted in higher actual Propylene recovery of 5% on feed.
- **Operating Expense (OPEX) Optimization** - \$0.35/bbl savings due to (a) lower PFCCU catalyst and ZSM-5 additive consumption owing to optimization efforts leading to better actual attrition, and (b) underrun in chemicals attributed mainly to the significant decline in caustic consumption of PFCCU-FGD, an effect of the introduction of stripped sour water (alkaline) to the unit as alternative to raw water in removing sediments and acidic components of flue gas.

Other performance highlights include the following:

- Full year 2010 actual crude run is 113.3 MBCD or lower by 0.7 MBCD than program. The lower actual crude run is attributed to (a) APS-2 heat exchanger leak in March, (b) Feeder 30 tripping in March, (c) delayed arrival of crude tanker in April, and (d) Feeder 9 tripping in June. The Refinery also ventured into processing of new crudes such as Qatar Marine, Labuan, ESPO, and Umm Shaif for better product yield and sourcing flexibility.
- Operational Availability (OA) is 98.4% or 4.4% higher than 2009 performance. The significant improvement in OA is attributed to the Refinery's Zero Downtime Program (ZDT), which was initiated in 2010.
- Processing Efficiency Index (PEI) is 99.2% or 0.5% lower than target and 2009 performance due mostly to electrical tripping incidents in March and June and power outage during Typhoon Basyang in July. This was partially offset by higher actual white products recovery.

- Energy Intensity Index (EII) is 124 or 2 points higher than target of 122 due mainly to lower capacity utilization of big EII process contributors, unplanned shutdowns and external power instabilities, turbine pumps operation, higher Petro FCC severity during operation, and earlier-than-planned commissioning of TG-1001. This is better by 4 points than actual EII for full year 2009.
- Unit Cost of Manufacturing (UCM) is P120.4/bbl or PhP8.1/bbl better than target of P128.5/bbl attributed to cheaper price of caustic and lower consumption of caustic, PFCC catalyst, ZSM 5, and other chemicals due to more efficient refinery processes.
- Refining Margin is \$2.60/bbl or \$0.51/bbl higher than target due to higher actual white products recovery and OPEX savings.

## Supply and Operations

- **Biofuels**  
Petron's 2010 Ethanol compliance level of 5.57% is slightly higher than the minimum required of 5%. For 1st Half 2010, we have already lifted 10.1 million liters from San Carlos at an average price of P32.46/liter. SCBI started their maintenance shutdown in July and has not resumed operations. FY 2010 imports is 57 million liters at an average cost of P31.45/liter.
- **Crude Diversification Program**  
The crude diversification program continued in 2010. Under this program the volume of Arab crudes processed was reduced to 70% from 74% in 2009 while the Petronas term crudes, Miri and Tapis, also decreased from 8.1% to 5.1% of the total crude slate. With these, alternative spot crudes processed totaled 28.2 MBCD or 24.8% vs. 18% in 2009. Russian crude ESPO (Eastern Siberia-Pacific Ocean) Blend, Petronas' Labuan, & Middle East's Umm Shaif and Qatar Marine were the new crudes processed this year. The Company has expanded our crude basket from last year's 13 to 17 this year.
- **Baseoil Supplier Network Expansion**  
The Company continues to expand its network of baseoil suppliers. Currently, there are six additional Singapore-based companies that are undergoing accreditation namely: Opet Trade, Cedar Petroleum, Automotive Motorcycles Motor Parts Corporation, Toyota Tsusho, BV Mabanaf and Iconol Philippines.
- **Major Projects on Depots**  
Several major projects were implemented this year which expanded Petron's logistical support in the areas where it operates, enabling the Company to comply with the Biofuels Law and assisted National Sales Division in serving the fuel requirements of their various accounts.
- **Ethanol Program**  
For 2011, we will be able to comply with the DOE's decision to implement E10 on premium grade gasoline such as Xtra and XCS in all locations by August 6, 2011. The implementation of E10 on RLF and Blaze is deferred until Feb 6, 2012.
- **100% Double Hull for White Oil Vessels**  
The Maritime Industry Authority or MARINA, thru its Administrator, Mr. Emerson M. Lorenzo, has signed and issued MC 2010-01 or the Revised Policy Guidelines on Tankers as it relates to the expanded double-hull implementation on all existing tankers and barges with 600dwt and above. Based on the said circular, all tankers and barges should be double-hulled within 12 months from its effectivity, or until Dec 31, 2011. The revised policy now applies to riverside barges and coastal tankers servicing and trading white products within the domestic waters.

Early preparations were made in compliance with the MARINA requirement. Of the nine white coastal tankers, five are on double-hull specifications. For Crossbay, we currently have five CVC

white Crossbay vessels already with double hull configuration. We expect all our Coastal and Crossbay vessels will have double hull configuration within the year and comply with MARINA requirements.

- **Management Systems Certifications - Quality, Environment, Security**

1. **ISO and OHSAS Management Systems**

Seven locations successfully completed the certification for Integrated Management System (QMS/EMS/OHSAS) last November 2010. Mandaue Terminal, Bacolod, Iloilo, Tacloban, Ormoc, Roxas, Mactan Depots are now officially recommended for certification on three management systems: 1) Quality Management System ISO - 9001:2008; 2) Occupational Health and Safety Management System OHSAS - 18001:2007; and 3) Environmental Management System ISO - 14001:2004.

2. **ISPS Certification**

A total of sixteen depots and terminals with private pier facilities maintained their International Ship and Port Facility Security (ISPS) Certification. They continue to impress DOTC-OTS with their effective port security procedures amidst persistent threats of terrorism. Their continuing compliance to the ISPS code makes them safe and terror-free disports for local and foreign vessels.

## **Information Technology**

BSSD further affirmed its IT maturity when the department was recently audited by an external auditor on IT Capability Management. The department was rated mature on major aspect of the audit with only minor deficiencies noted on end user support documentation. The audit findings were in agreement to previous assessment made by Microsoft on Petron's Infrastructure Maturity which put Petron on the Rationalized level, just one level below the highest level of Optimized.

The year 2010 also saw the department fully adopting server virtualization to further streamline Petron's IT operations. Server virtualization brings numerous benefits including cost savings on servers, power, rack space and license requirement. At the same time, the technology also enables a highly efficient operation with increased asset utilization and denser resource consolidation and more importantly, it brings about faster turnaround in implementing systems. For 2010, BSSD has completed the conversion of more than half of its physical server assets to virtual ones, and in the process, reducing rack space requirements from thirty four (34) to just twenty (20).

## **Human Resources**

The company's Human Resources Management Department (HRMD) continues to implement programs for the employees' professional and personal development. In 2008, the People Management Association of the Philippines or PMAP chose Petron as the Employer of the Year and its HRMD Manager as the People Manager of the Year.

## **Health, Safety and Environment**

Last December 23, 2010, Petron Bataan Refinery achieved the highest safety milestone in its history by attaining Ten (10) Million Man-hours Without Lost Time Accident. This accomplishment represents eight hundred fifty one (851) days of safe refinery operations.

The Department of Labor and Employment-Bureau of Working Conditions (DOLE-BWC) conferred the annual Safety Milestone (Smile) Award to 31 Depots, Plants, and Terminals of our Supply Operations

Group. This performance was attained by upholding the company's commitment in the implementation of Occupational Safety and Health (OSH) standards by creating advocacy programs that resulted to the Safety Milestone of 37,489,724 safe-manhourswith no lost time accident last year.

- **Inspections/Audit**

Safety inspections were conducted at 28 depots and terminals by Operations Safety to ensure that the plants adhere to the Company's standards on health and safety. This included a gap assessment on Pandacan Terminal's existing fire protection systems, manpower training and revision on fire emergency plans. Audits were also conducted in four facilities of Holcim in La Union, Davao, Iligan, and Bulacan. The group also conducted safety assessments of the company's LPG facilities including Dealers and LPG Maintenance Contractors facilities in La Union, Iloilo, Davao, and Legaspi.

- **Operations Safety Equipment Rediness**

Operations HSE started the functional test activities related to the fire pump capacity testing last 2008 and completed the second phase during the first quarter of 2010. The Divisions continue to upgrade firefighting and oil spill equipment of depots/terminals to ensure operational readiness at all times.

- **Integrated Management System**

Quality Management System ISO -9001:2008; Occupational Health and Safety Management System OHSAS - 18001:2007; and Environmental Management System ISO - 14001:2004 are being integrated. These will sustain the depots' operational efficiency by reducing certification and system maintenance cost with the synchronization of surveillance audit schedules on quality, environment, and occupational health and safety. Seven locations have successfully completed the certification last November 2010. Five locations have also passed stringent Occupational Health and Safety Management System (OHSAS) audit process.

For its programs, Petron's HSE will continue to conduct audit/assessment of existing engineering standards and provide technical assistance on work safety practices in its employees and facilities.

## **Corporate Social Responsibility**

Petron Foundation continued to be at the forefront of Petron's efforts to make a sustainable impact to society and the environment, while at the same time contributing to the attainment of the company's business goals. Other highlights of PFI's accomplishments for 2010 include the following:

### **Education & Entrepreneurship Program**

- Tulong Aral ng Petron has a total of 5,323 scholars enrolled from Grades 1 to 6: 4,099 scholars in 38 partner schools in the National Capitol Region and 1,224 scholars from Mindanao. 852 Tulong Aral scholars graduated in March 2010, which comprised the second batch of children who started the program in 2004. It also established the Tulong Aral High School Scholarship Program, a partnership among Department of Education, Department of Social Welfare and Development, and Land Bank of the Philippines. A total of 373 youths - 275 in 3<sup>rd</sup> year and 98 in 1<sup>st</sup> year -- are receiving scholarships to go to high school in 21 public schools in Metro Manila (Land Bank is sponsoring 98 scholars while Petron is supporting 275).
- 100 third year students of Muntinlupa Business High School (MBHS) learned the business of business through the Youth in Entrepreneurship and Leadership Development or YIELD program. Apart from the training, students also had the opportunity to be mentored by faculty members of San Beda College-Manila on subjects such as business, accounting and management.

### **Construction of Petron Schools**

- Petron edged nearer to the completion of its partnership with the United States Agency for International Development (USAID) for the construction and repair of classrooms in Region 9, Region 12 and the Autonomous Region of Muslim Mindanao (ARMM). In 2010, Petron built 40 new

classrooms and refurbished 245 existing ones. By 2011, this project is expected to have put up and repaired a total of 600 classrooms through a Global Development Alliance (GDA) partnership with the Education Development Center (EDC).

- Beyond infrastructure, PFI's partnership with USAID also helped build the capabilities of nearly 1,000 teachers in 105 schools from Region 12. A total of 201 Administrators/318 Mentors/1,582 Teachers (service count) participated in trainings to enhance their competencies in teaching English, Math and Sciences. Petron Foundation likewise continued its partnership with Sa Aklat Sisikat Foundation (SAS) to work with public schools all over the country and provide resources aimed at encouraging reading to children.

#### **Promoting Environmental Sustainability**

- PFI established several environmental programs during the past year that aims to protect the environment of selected communities. These projects include the Bataan Integrated Coastal Management Program, Boracay Beach Management Program, and Marikina River Rehabilitation.

#### **Fuel Community Development**

- PFI undertook strategic community programs to benefit the thousands of residents in communities where Petron is present, most notable is the construction of the Petron Community Health Center within Pandacan Terminal. A joint effort with the Manila Health Department, and Ospital ng Maynila, the Community Health Center augments the health care programs and services being delivered by nearby barangay health centers by providing consultation and treatment, a clinical laboratory, X-Ray and ultrasound facilities. It became fully operational in April.
- Petron conducted several feeding programs for children beneficiaries in Pandacan, Manila, in partnership with Manila Archbishops Gaudencio Cardinal Rosales' Hapag-Asa program, Petron Pandacan Terminal and Caritas Manila.

#### **Advancing Sustainability Management and Reporting**

Petron published its second Sustainability Report (SR) to reaffirm its commitment to ensure that sustainability becomes an integral part of the way it does business and as a corporate way of life. The 2009 SR achieved a milestone in being the first by a Philippine company to achieve a B+ level under the Global Reporting Initiative (G3) Guidelines, with the report reviewed and validated by an independent panel of experts led by the University of Asia and the Pacific.

#### **Advocating Corporate Social Responsibility**

A total of 930 employee volunteers out of the 1,316 employees or roughly 70% of Petron's manpower complement put in an equivalent of 8,562 hours to various efforts in education, environment and other community endeavors. Employees continued to share their time and talents as mentors, advisers and resource speakers for high school and college youths. Through the JAPI program, hundreds of young men and women gained valuable knowledge and skills in the fields of Marketing, Production, Finance, Business Development and CSR. Also doing their share were the company's stakeholder, where 7,253 individuals (service count) accounted for 24,529 hours of volunteer work rendered to benefit 45,693 people.

## **(2) Business of Issuer**

### **(i) Principal products or services and their markets**

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products. It sells a full range of refined petroleum products including gasoline, LPG, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts and petrochemical feedstocks- mixed xylene and propylene. Straight-run fuel oil, diesel, and mixed xylene and propylene are exported. When necessary, some refined petroleum products are imported.

The major markets in the petroleum industry are Reseller, Industrial, LPG and Lube Trades. Petron sells its products to both industrial end-users and resellers through a nationwide network of service stations, LPG dealers and retail outlets. It also supplies jet fuel at key airports to international and domestic carriers.

Petron also operates a Lube Oil Blending Plant at the Pandacan Terminal. Lubricants are sold through service stations and sales centers. Its fuel additive blending plant in Subic Bay Freeport supplies the company's requirements and serves as Innospec's Asian supply hub.

The company also continues to expand its non-fuel businesses which include convenience store brand "Treats". It has partnered with major food chains and other consumer services to give its customers a one-stop full service experience.

**(ii) Percentage of sales or revenues contributed by foreign sales**

	Domestic	Exports	Total
2008, in million pesos	230,833	36,843	267,676
2008, in percentage	86%	14%	100%
2009, in million pesos	163,757	12,774	176,531
2009, in percentage	93%	7%	100%
2010, in million pesos	207,304	21,790	229,094
2010, in percentage	90%	1010%	100%

**(iii) Distribution methods of products or services**

Petron's bulk petroleum products are refined from crude oil at its refinery in Limay, Bataan. From the Bataan Refinery, products are distributed to the various bulk storage terminals and direct consumer accounts nationwide using a fleet of barges and tankers. From the storage depots, bulk products are hauled by tank trucks to service stations and to direct consumer accounts. Products may also be sourced from "rationalized" depots operated by other oil companies.

**(iv) New products or services**

**New Products**

1. **Turbo Diesel**, a technologically advanced fuel designed for medium to high-speed diesel engines. Launched on Aug 8 and now available in 118 stations
2. **Pinoy Gasoline**, a CSR product with higher RON, but lower price than Regular Gasoline available in selected stations only. Launched on Aug 20 and now available in 55 stations.
3. **Blaze100**, Premium Grade Gasoline with 100 RON, meets PNS and Euro II specs and suitable for sports / racing cars. Launched on Nov 26 and now available in 156 stations.
4. **Premium Lithium Complex Grease** meets NLGI GC/LB specifications, the highest quality level for multi-purpose grease, and is suitable for various automotive and industrial applications.

**Product Enhancements**

1. **Quality Upgrade of Ultron Rallye from API SL to API SM** - Ultron Rallye is a multigrade semi-synthetic engine oil which combines the performance advantages of synthetic technology with conventional oils. It provides cost-effective superior performance for all gasoline passenger cars and light-duty trucks and vans.
2. **Phase-out of 650 Extract in Petron's product lines** - 650 Extract is a process oil material used in rubber manufacturing, whose ingredient, polycyclic aromatic hydrocarbon, has been found to be

carcinogenic. Petron, as part of its quality policy to produce environment friendly and safe products, embarked on the phase-out of 650 Extract as raw material in its product lines.

#### **(v) Competition**

Petron operates in a deregulated oil industry along with other major players Shell and Chevron, as well as more than 90 other players. This industry is heavily affected by volatile crude prices, strict environmental requirements and a more value-conscious breed of consumers. While pricing remains to be a primary driver of sales in all sectors, a shift towards total customer solutions has also been noted. Major customer initiatives include the establishment of a Petron Customer Interaction Center that will attend to various customer needs from order taking to feedback/complaints management.

The country's Gross Domestic Product (GDP) growth is estimated at 5.0% in 2011, coming from a high GDP of 7.3% in 2010 due to election-related spendings.

**Dampening Fuel Demand.** Based on Department of Energy (DOE) exchange data, the country's total consumption of petroleum products has been declining by an annual average rate of 2.5% for the past 10 years. The demand slump can be attributed to stricter environmental requirements and increasing fuel prices prompting users to shift to alternative energy.

**Growing Industry Competition.** Deregulation saw the entry of more than 90 other industry players, rendering the petroleum business more competitive. In the reseller sector, competition is most dynamic among the majors, as seen through the construction of stations by Shell, Chevron, including Total and Phoenix Petroleum, not only limited in major thoroughfares but in Visayas and Mindanao as well. Major marketing initiatives are backed up by full-scale advertising and promotions. Even the small players continue to grow, with station count increasing from 695 in 2001 to about 1,400 stations in 2010. New players in the Reseller and LPG sectors continue to resort to price wars and aggressive discounting in order to expand market share. In the industrial sector, investments such as depot construction continue to pour in from players (both Oil Majors and independent players) aimed at increasing market share and tapping new markets. The number of LPG importers have increased from three, prior to deregulation, to about six, with new entrants claiming more flexible and bigger import receiving capacities. In the lubes market, intense competition among over 50 brands, including big names like Castrol, Mobil, Shell & Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of uncharted markets like auto-dealerships & malls.

Petron participates in the reseller (service station), industrial, lube and LPG sectors, through its network of service stations, terminals & bulk plants, dealers, and distributors nationwide. In addition, Petron is engaged in non-fuels business through its Treats c-store outlets, billboards, and locators which are largely situated within premises of service stations.

Aside from the two major oil companies, namely, Shell and Chevron, Petron also competes with other players which have a collective market share of 21.7% as of October 2010.

Historical data shows that Petron has effectively gained and protected its market leadership in the industry. Its strength lies in its organization, technology, assets, resources and infrastructure. It has continuously developed and adopted initiatives aimed at improving operational efficiency; managing costs and risks; maximizing utilization of its assets and opportunities such as tapping new markets and engaging in new businesses.

#### **(vi) Sources and availability of raw materials and the names of principal suppliers**

In 2010, Petron purchased most of its crude from Saudi Aramco. It also purchased Tapis and Miri crudes from Petronas. Other crudes like ESPO, Kikeh, Labuan, Lower Zakum, Oman, Palawan Light, Qatar

Marine, Umm Shaif and Vityaz were purchased on spot basis from different companies. We renewed our Crude Oil Supply Agreement with Saudi Aramco up to October 2011, with automatic one-year extensions unless terminated at the option of either party. We also renewed our crude oil supply agreement with Petronas covering the period January to December 2011.

LPG Imports were awarded to Petronas for the period August 2010-July 2011. To address Gasul's concerns on unsaturates and vapor pressure, Petronas guaranteed the supply of field grade LPG with propane content of 40-50%.

Propylene, LSFO and Asphalt Imports have been sourced from separate agreements with Mitsui, Petrobas Singapore (the trading arm of Petrobas Brazil), and East Asia Oil and Chemical Pte. Ltd., respectively.

**(vii) Dependence on one or a few major customers and identity of any such major customers**

PanAsia Energy Holdings accounts for 5%, Philippine Airlines accounts for 4%, and National Power Corp. (NPC) accounts for 4% or combined 13% of Petron's total domestic sales volume as of end-2010. Loss of these accounts will impact on the company's sales volume as evident in the privatization of several NPC plants in 2010.

**(viii) Transactions with and/or dependence on related parties**

Petron has been leasing from its previous major shareholder, PNOC, certain parcels of land where most of its bulk plants, terminals, and service stations are located. The Refinery area is leased by Petron's affiliate, New Ventures Realty Corporation, which has also acquired parcels of land where some depots, terminals and many service stations are located. Under the Retail Trade Liberalization Law, Petron is allowed to engage in direct retail of its fuel products thru its subsidiaries, namely, PMC and PFC.

**(ix) Patents, trademarks, licenses, franchises, concessions, royalty agreements**

**(A) Trademarks**

**Approved.** Petron has trademark registrations for a term of **20 years** for its Rev-X, AS, Petrogrease, Gearkote, Gearfluid, Gasulette, Gasulite, Gasulgrille, Gasul, Marinekote, LPG Gasul Cylinder 50 kg., Gasul and Device, LPG Gasul Cylinder 11 kg., Petron STM, Petron Autokote, GEP, , Petron Old Logo, Hypex, Extra, Petron Old Logo (Tradename), 2T, Turnol, Petromar HD, Spinol, Airlube, Hydrotur, Petromix, Voltran, Stemol, Petrocyl 680, Printsol 600, Overglide, Grease Away, Petrokut, Petron Railroad Extra, Rubbex, Petron Dust Stop Oil, Oil Saver, , DCL 100, Milrol, Petropen, Petron GST, Petron with XCS, With XCS, Super DC, LPG Gasul Cylinder 2.7 kg. Petromul CSS-1, New Petron Logo, Power Booster, Zerflo, Petron XD3, TDH 50, Petron 2040, Automatic Transmission Fluid, Petrotherm 32, Petrokote, Petrosine, Petron HDX, Petron TF, Petron, Ropgriz, Ultron and Device, 2T Motorcycle Oil, Gasulito with Stylized "P" and Molygrease.

Treats & Device, Rev-X All-Terrain, Petron Gasul 11-kg POL-VALVED Cylinder, Ultron Speed, Ultron Rallye, Rev-X Trekker, Rev-X Hauler, Rev-X HD, Bull's Eye, Ultron Extra, Sprint 4T, Xpert Diesel Oils, Penetrating Oil, Solvent 3040, Ultron Race, Ultron Touring, Lakbay Alalay, Blaze, Clean 'n Shine, Fuel Challenge, Fuel Hope, Fuel Success, Fuel X Fuel Customer, Pchem, Petron Farm Trac Oil for Farm Equipment, Petron Freeport Corporation, Petron Marketing Corporation, PetronConnects, Power for Xtra Miles, Treats (for bottled water), Tulong Aral, Tulong Aral ng Petron & Device, Ultimate Release from Engine Stress, Xpert sa Makina Express ang Kita, "Your friend on the Road", Fuel Trust, Fuel Experience, Fuel Drive, Fuel Excellence, Fuel Efficiency, Xtend, Car Care & Logo, Go for the Xtra Miles, e-fuel and Xtra are registered for a term of **10 years**.

**Pending.** Petron has pending applications for registration of the following trademarks: Lubritop, Antimist, Grease Solve, Process Oils, Petromate with Logo, Powerburn 2T, Petron GX, Asphaltseal, Cable Lube, Adgas, It's Oil You Need, , 2T Enviro with Oil Drop, Rover, Pure Distilled Drinking Water, Carbon Flush, Rider, Enduro, Extra, Fiesta Gas with device, Fiesta Gas 2.7kg cylinder, Fiesta Gas 5kg cylinder, Fiesta Gas 11kg cylinder, Fiesta Gas 5kg. POL-VALVED, Fiesta Gas 11kg. POL-VALVED, Fiesta Gas 22kg. POL-VALVED, Fiesta Gas 50kg. POL-VALVED, , Bulilit Station and Fuel Value, Gasulito (7 kg.)container, "How far can you go on one full tank these days?", Bulilit Station (Gasoline Station), Fuel Journeys, High Performance System, Petron Pinoy Gasoline, Petron Turbo Diesel & Boomerang rep High Performance Diesel, HPS, High Performance Gasoline, Petron Blaze 100 and Petron Lakbay Pinoy.

**Copyrights.** Petron has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and 2 flames, for Powerburn 2T, and for Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for 50 years after his death.

**(x) Government Approval of Principal Products or Services**

Government approval of Petron products and services is not generally required. Petroleum products refined at the Petron Bataan Refinery conform to specifications under the Philippine National Standard. Importations of petroleum products and additives are reported to the DOE, in accordance with the Oil Deregulation Law. Clearances are secured from concerned government authorities for importations of restricted goods. Supply of products or services to government and government agencies undergo bidding process in accordance with law.

**(xi) Effect of existing or probable government regulations on the business**

**EO 890: Removing Import Duties on All Crude and Refined Petroleum Products.** After the ASEAN Trade in Goods Agreement (ATIGA) was implemented in 2010, tariff rate structure in the oil industry was distorted with crude and product imports from ASEAN countries enjoying zero tariff while crude and product imports from outside the ASEAN are levied 3%. To level the playing field, Petron filed a petition with the Tariff Commission to apply the same tariff duty on crude and petroleum product imports, regardless of source. In June 2010, the government approved Petron's petition and issued Executive Order 890 which eliminates import duties on all crude and petroleum products regardless of source. The reduction of duties took effect on July 4, 2010.

**Biofuels Act of 2006.** Currently, the Biofuels Act of 2006 mandates that ethanol comprise 5% of total gasoline volumes, and that diesel contain 2% CME (cocomethyl ester). By 2011, all gasoline grades should contain 10% ethanol. However, the National Biofuels Board is still reviewing this further increase of ethanol content in gasoline amidst the shortage of locally-produced ethanol and the issue on ethanol's compatibility to motor vehicle engines.

To produce compliant fuels, the Company invested in CME (coco methyl ester) injection systems at the refinery and depots. Prior to the mandatory blending of ethanol into gasoline by 2009, the Company already started selling ethanol blended gasoline in selected service stations in Metro Manila in May 2008.

**Renewable Energy Act of 2008.** The Renewable Energy Act signed in December 2008 aims to promote development and commercialization of renewable and environment-friendly energy resources (e.g. biomass, solar, wind) through various tax incentives. Renewable energy developers will be given 7-year income tax holiday, power generated from these sources will be VAT-exempt, and facilities to be used or imported will also have tax incentives.

**Laws on Oil Pollution.** To address issues on marine pollution and oil spillage, the MARINA mandated the use of double-hull vessels for transporting black products beginning end-2008 and by 2011for white products.

Petron has been using double-hull vessels in transporting all black products and some white products already.

**Clean Air Act.** Petron invested in a Gasoil Hydrotreater Plant and in an Isomerization Plant to enable it to produce diesel and gasoline compliant with the standards set by law.

**(xii) Estimate of the amount spent during each of the last three fiscal years on research and development activities:**

Every initiative or program the company undertakes would have a research and development aspect to it but it is not always a distinct component. Often, this element is integrated into the other aspects or operational levels of our program.

**(xiii) Costs and effects of compliance with environmental laws**

Compliance with the various environmental laws like the Renewable Energy Act of 2008, Biofuels Act of 2006, Clean Air Act, Clean Water Act etc. definitely entails costs and additional investments on the part of the company, resulting in higher production costs and operating expenses. For the Refinery, the Company spent a total of ₱92.397 million for treatment of wastes, monitoring and compliance, permits and personnel training.

**(xiv) Total number of employees**

As of December 31, 2010, the company's employees totaled 1,317 broken down as follows: Chairman, President, 16 Vice Presidents, 865 Managerial, Professional and Technical (MPT) employees, and 434 Rank and File employees. It has no plans of increasing its workforce by a significant number for the ensuing 12 months.

Petron has Collective Bargaining Agreements with its three unions, namely: (a) Bataan Refiners Union of the Philippines (BRUP); (b) Petron Employees Labor Union (PELU); and (c) Petron Employees Association affiliated with the National Association of Trade Unions (PEA-NATU). The BRUP CBA covers the period January 2011 to December 2013; PELU's CBA is in effect from January 1, 2008 to December 31, 2010; and PEA-NATU is from January 1, 2009 to December 31, 2011. The company did not deal with any labor strike for the past three years nor were there union complaints submitted to the Department of Labor and Employment.

In addition to the statutory benefits, the Company provides hospitalization insurance; life insurance; vacation, sick and emergency leaves; and computer, company and emergency loans to employees. It has also established a savings plan wherein an eligible employee may apply for membership and have the option to contribute 5-15% of his monthly basic salary. The Company, in turn, contributes a maximum of five percent to a member-employee's account in the savings plan. The Company has adopted the "Rewarding Excellence through Alternative Pay Program", a performance incentive program that rewards eligible employees who contribute to the achievement of the Company's annual business goals.

## Major Risks Involved

### Risk Management Framework & Process

Petron Corporation follows an enterprise-wide risk management framework for identifying, mapping and addressing the risk factors that affect or may affect its businesses.

The Company's risk management process is a bottom-up approach, with each division mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As Petron's operation is an integrated value chain, risks emanate from every process and some could cut across divisions. The results of these activities flow up to the Management Committee and eventually, the Board through the Company's annual Business Planning process.

Oversight and technical assistance is likewise provided by corporate units with special duties. The Financial Planning Unit of the Treasurers Department is mandated with the overall coordination and development of the enterprise-wide risk management process. A cross-functional Commodity Risk Management Committee oversees crude oil and petroleum product hedging transactions. The Financial Risk Management Unit of the Treasurers Department is in charge of foreign exchange hedging transactions. The Transaction Management Unit of the Controller's Department provides backroom support for all financial transactions. The Corporate Technical & Engineering Services Group oversees compliance with the domestic and international standards set for health, safety and environment. The Internal Audit Department has been tasked with the implementation of a risk-based auditing.

### Major Risks

The Company classifies a risk as a major risk if it assesses the risk event to both have a relatively high probability of occurring and a substantial adverse impact on the Company if the risk would occur. The major risks that the Company managed in 2010 were substantially the same as those in the previous year since there were no fundamental changes in the nature of the Company's operations. These risks were the following:

- Foreign exchange risk arising from the difference in the denomination of majority of revenues in Philippine Pesos against that for the bulk of costs in US Dollars. Changes in the foreign exchange rate would result in the revaluation of key assets and liabilities, and could subsequently lead to financial losses for the Company.
- The risk of substantial disruptions in the Company's operations caused by accidents, process or machinery failure, human error or adverse events outside of human control. This risk could also include delays in the implementation of major capital expansion activities. These disruptions may result to injury or loss of life, as well as financial losses should these disruptions lead to product run-outs, facility shutdown, equipment repair or replacement, insurance cost escalation and/or unplanned inventory build-up.
- Profit margin and cash flow risk arising from fluctuations in the relative prices of input crude oil and output oil and petrochemical products. Changes in output and input prices, particularly when mismatched, may produce significant cash flow variability and may cause disruptions in the Company's supply chain, as well as higher financing expenses.
- Regulatory risk, arising from changes in national and local government policies and regulations that may result to substantial financial and other costs for the Company, either directly or indirectly.

The Company has determined that none of the risk factors faced by any of its subsidiaries would be a major risk - these have either a low probability of occurring and/or has insignificant potential impact. Thus, while subsidiary-specific risks were considered in the risk management process, these are considered relatively minor.

## Management of Major Risks

### Foreign exchange risk

- The Company hedges its dollar-denominated liabilities using forwards, other derivative instruments and the generation of dollar-denominated sales. It avoids the creation of risk from derivative speculation by limiting the use of derivative instruments up to 100% of the value of the underlying dollar-denominated liabilities net of dollar-denominated assets.
- Dollar-denominated assets and liabilities and the resulting potential foreign exchange losses are recorded on a daily basis through a software that monitors financial transactions under the Company's enterprise resource planning system. This allows real-time awareness and response to contain losses posed by foreign exchange exposure. Such software is also capable of tracking risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices.

### Risk of operational disruptions

- The risk of operational disruptions is most relevant to the refining unit since disruptions in the Refinery can have severe and rippling effects.
- The Refinery Division has been implementing programs designed to directly address the avoidance of operational disruptions through effective maintenance practices and the inculcation of a culture of continuous process improvement.
- The Company has a corporate-wide health, safety and environment program that likewise addresses the risk of operational disruptions.
- The Company has complied with and has been certified to be compliant with the strictest international standards for quality management systems under ISO 9002:1994 in August 1998; and for environmental management systems under ISO 14001:2004 in October 2006 up to present, for its refinery operations. The refining division is currently implementing an Integrated Management Systems composed of Quality Management System (ISO 9001:2008); Occupational Health and Safety Management System (OHSAS or ISO 18001:2007); Environmental Management System (ISO-14001:2004), all for certification audit and surveillance audit, respectively.
- A total of 30 locations are covered by ISO 9000 certification. Of these locations, a total of 20 have been migrated to the ISO 9001:2008 certification. Seventeen locations had been issued ISO 14001:2004 certifications. Thirteen depots/terminals/ports were accorded the ISO 18001:2007 standard. A special citation was awarded to the Iligan depot, which is currently covered by ISO 9001:2008 and ISO 14001:2004. Seven locations are being primed for migration to an Integrated Management System that includes ISO 9001:2008, ISO 14001:2004, and ISO18001:2007.
- Furthermore, the Company's ships and ports are currently ISPS (International Ship and Port Security) certified by the Office of the Transport Security under the Department of Transportation and Communication. ISPS certification is a requirement for all international vessels calling on international ports and for all ports accepting international vessels by the International Maritime Organization under the United Nations. Petron's shipping ports for both domestic and international vessels are ISPS certified.

### Profit margin and cash flow risk

- Margin hedging strategies are used for some dollar-based contracts in order to eliminate the risk of profit margin compression due to changes in crude and product prices. A margin hedge

simultaneously fixes the future dollar prices of Dubai crude oil and that of a selected product (contracted to be sold at the future date) manufactured from the crude.

- The Company endeavors to arrange long-term contracts for some of its fuel and petrochemical products whenever these are financially attractive. Long-term sales contracts provide a partial hedge on future cash flow uncertainty.
- The Company uses cash flow projection software that enables it to proactively respond to potential future cash flow imbalances. It, likewise, maintains access to credit lines in excess of typical requirements so that funds can be readily tapped in case of a cash flow squeeze.

#### Regulatory risk

- The Company maintains strong lines of communication with its various counterparties in government and in the public arena, in both local and national levels. The Company uses these lines of communication to identify potential risk factors and respond to these in a proactive manner.
- The Company remains compliant with the various environmental standards set by the government.

### **(B) Description of Property**

Petron owns the largest petroleum refinery complex in the Philippines located in Limay, Bataan. This refinery has a crude distillation capacity of 180,000 barrels per day (BPD). It has three Crude Distillation Units, a Vacuum Pipestill Unit, a PetroFluidized Catalyst Cracking Unit, a Continuous Catalyst Regeneration Reformer Unit, a Semi-Regenerative Reformer Unit, two Naphtha Hydrotreaters, two LPG Treaters, an Isomerization Unit, Benzene, Toluene and Mixed Xylene Recovery Units, a Propylene Recovery Unit, a Kerosene Merox Treater, two Gas Oil Hydrotreater Units, a Sulfur Recovery Unit, a Nitrogen Plant, a Caustic Regeneration Unit, Waste Water Treatment Facilities, eight Steam Generators, five Turbo Generators, Flare and Safety Relieving Facilities, Bulk Asphalt Receiving Facilities, several crude storage tanks, as well as a number of refined petroleum products storage tanks. It has its own piers and other berthing facilities one of which can accommodate very large crude carriers.

Petron also operates an extensive network of terminals and bulk storage and satellite facilities and LPG plants which are located in Luzon, Visayas and Mindanao. Its major terminals and plants are in Limay, Bataan; Pandacan, Manila; Rosario, Cavite; Ugong, Pasig City; Mabini, Batangas; Poro Point, San Fernando, La Union; Mandaue City; Lapuz, Iloilo City; Bacolod City; Tagoloan, Misamis Oriental; Sasa, Davao City; and Zamboanga City. Its bulk plants and sales offices in Luzon are located in Aparri, Cagayan; Calapan, Oriental Mindoro; Pasacao, Camarines Sur; Legaspi City, Albay; Puerto Princesa, Palawan; San Fernando City, Pampanga, and Navotas, Metro Manila. In the Visayas and Mindanao, the bulk plants are in Amlan, Negros Oriental; Culasi, Roxas City; Linao, Ormoc City; Anibong, Tacloban City; Isabel, Leyte; Tagbilaran City, Bohol; Iligan City; Jimenez, Misamis Occidental; Bawing, General Santos City and Nasipit, Agusan del Norte.

Petron has airport installations at the JOCASP, NAIA, Pasay City; Laoag City; Iloilo and Davao Cities. Since Petron is no longer qualified to own the parcels of land where the Bataan Refinery, the terminals, the bulk plants and the service stations are located, these lands are now leased from the Philippine National Oil Company (PNOC) and from New Ventures Realty Corporation (NVR) on 25-year leases, which are renewable. Petron's lease agreements on those lands owned by private persons vary as to their terms and conditions, including the period of lease.

The lease agreement with PNOC on refinery property is until 2039, renewable for another 25 years upon mutual agreement of the parties. Lease charges on refinery facilities escalate at three percent (3%) per annum until 2011. Said leased premises shall be subject to reappraisal every fifth year of the

rental period beginning on 2012. The amount equivalent to five percent (5%) of the reappraised value of the property shall be the new rental rate, subject to an annual three percent (3%) escalation for the four (4) years following the appraisal. Lease payments amounted to ₱92.6 million in 2010.

Petron anticipates that it will lease desirable lots from NVRC and third parties to be developed as services stations in the next twelve months.

### **(C) Contingent Liabilities**

In 2010, Petron was involved in certain litigation some of which are material as this term is understood under the law. These are:

- 1. Commissioner of Internal Revenue v. Petron Corporation**  
**CA -GR No. 55330**  
Court of Appeals  
Date Filed: October 1999

**Petron Corporation v. Commissioner of Internal Revenue and BIR Regional Director of Makati, Region 8**  
**CTA Case No. 5657**  
Court of Tax Appeals  
Date Filed: July 7, 1998

Background: In 1998, the Company contested before the Court of Tax Appeals (CTA) the collection by the Bureau of Internal Revenue (BIR) of deficiency excise taxes arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth ₱659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the Court of Appeals where the case is still pending.

Exposure: ₱1,107,542,547.08 plus 20% annual interest from April 22, 1998

Relief sought on Appeal: The BIR seeks a reversal of the CTA decision and prays for judgment ordering Petron to pay ₱1,107,542,547.08 in excise tax liabilities for 1993-1997 inclusive of surcharges and interest, plus 25% surcharge and 20% annual interest from April 22, 1998.

Status: The Court of Appeals issued a resolution suspending decision on the case until the termination of the DOF investigation on the TCCs assigned to Petron. Petron filed a motion for reconsideration which remains unresolved as of this date. Petron filed a Motion for Re-raffle requesting the re-raffle of the case and its immediate resolution.

Likelihood of resolution against Petron: Remote

- 2. Petron Corporation v. Commissioner of Internal Revenue**  
**SC - G.R. No. 180385**  
Supreme Court  
Date Filed: November 21, 2007

**Petron Corporation v. Commissioner of Internal Revenue**

**CTA EB No. 238**

**CTA Case No. 6136**

Court of Tax Appeals

Date Filed: July 10, 2000

Background: In November 1999, the Department of Finance (DOF) Center ExCom cancelled Tax Debit Memos (TDMs) worth ₱475 million, the related TCCs and their assignments. The BIR implemented this with a letter of assessment for deficiency excise taxes of ₱284 million plus interest and charges for the years 1995 to 1997, as a result of the cancellation. The Company contested on the grounds that the assessment has no factual and legal basis and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000.

On August 23, 2006, the Second Division of the CTA rendered its Decision denying Petron's petition and ordered it to pay the BIR ₱580 million representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. Petron appealed the Division's Decision to the CTA en banc. On October 30, 2007, the CTA en banc dismissed Petron's appeal, with 2 of 4 justices dissenting. On November 21, 2007, Petron filed its appeal with the Supreme Court.

Exposure: ₱651,334,263.92 plus 20% interest from November 1999.

Status: On November 7, 2008, the Supreme Court gave due course to Petron's appeal and directed Petron to file its Memorandum. After the parties filed their respective memoranda, the case is now submitted for resolution.

A Decision was promulgated by the Supreme Court on July 28, 2010 reversing and setting aside the decision of the Court of Tax Appeals en banc requiring Petron to pay the BIR the amount of ₱1,804,972,415.96 comprised of deficiency tax of ₱580,236,552.67 and 20% interest from December 4, 1999 until June 24, 2010.

On September 13, 2010, the Supreme Court issued a Resolution denying with finality the CIR's motion for reconsideration of the Decision dated July 28, 2010.

**3. Petron Corporation v. Commissioner of Internal Revenue**

**CTA EB 311**

**CTA Case No. 6423**

Court of Tax Appeals

Date Filed: April 2002

Background: In May 2002, the BIR issued a collection letter for deficiency taxes of ₱254 million plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. The Company protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999. The Company elevated the protest to the CTA.

On May 4, 2007, the Second Division of the CTA denied Petron's Petition for Review for lack of merit. Petron was ordered to pay the BIR the reduced amount of ₱601 million representing Petron's alleged deficiency excise taxes for the taxable years 1995 to 1998. In addition, Petron was ordered to pay the BIR 25% late payment surcharge and 20% delinquency interest per

annum computed from June 27, 2002. Petron appealed to the CTA En Banc thru a Petition for Review filed on October 1, 2007.

Exposure: ₱720,923,224.74 plus 20% interest per annum from January 2002.

Status: On December 3, 2008, after Petron filed its Manifestation and Motion informing the Court of the Supreme Court Decision in the Pilipinas Shell case<sup>1</sup>, the CTA En Banc reversed the unfavorable decision of the CTA 2nd Division<sup>2</sup>. The CIR filed a petition for Review with the Supreme Court. The Supreme Court directed Petron to file Comment on the petition in the Resolution dated Feb. 4, 2009. Petron's Comment was filed on April 20, 2009.

Likelihood of resolution vs. Petron: Remote

We should note that there are duplications in the TCCs subject of the three assessments. Excluding these duplications, the basic tax involved in all three assessments represented by the face value of the related TCCs is ₱910.7 million.

#### 4. Pandacan Cases

**Petron Corporation v. City Council of Manila,  
et al.**

**Civil Case NO. 03-106379**

RTC Manila Br. 42

Date Filed: April 25, 2003

Background: In November 2001, the City Council of Manila, citing concerns of safety, security and health, passed City Ordinance No. 8027 reclassifying the areas in Pandacan, Manila occupied by the oil terminals of Petron, Shell and Chevron from Industrial to Commercial, making the operation of the terminals therein unlawful. The oil companies were given 6 months from effectivity of the Ordinance to vacate Pandacan.

Petron filed a petition to annul City Ordinance No. 8027 and stop the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

At the same time that legal measures were being undertaken, an MOU was executed between the oil companies, the DOE, and the City of Manila in June 2002 which document represented efforts to address the concerns of the City Council with the implementation of a scale down program to reduce tankage capacities and joint operation of facilities with Shell and Chevron and allow the continued operation of the oil depots.

A status quo order in the court cases was in effect and the case of Petron, as were that of Shell and Chevron, was under mediation proceedings. Thereafter, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows the oil companies a seven-year grace period. The passage of Ordinance No. 8119 was thought to effectively repeal Manila Ordinance No. 8027. However, on March 7, 2007, the Supreme Court rendered a Decision in the case of SJS Society vs. Atienza, directing the Mayor of Manila to immediately enforce Ordinance No. 8027.

Relief sought: Nullification of Ordinance No. 8027

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<sup>1</sup> Petron filed a similar Manifestation and Motion before the Court of Appeals in CA-G.R. SP No. 55330 but the CA still has not acted on it as of date.

<sup>2</sup> Computed from June 27, 2002 until the amount is fully paid, if the Division's decision were enforced, damages would reach a total of ₱2,222,846,609.6.

Status: On March 12, 2007, Petron, together with Shell and Chevron, filed an Urgent Motion for Leave to Intervene and Urgent Motion to Admit Motion for Reconsideration of the decision dated March 7, 2007, citing that the Supreme Court failed to consider supervening events, notably (i) the passage of Ordinance No. 8119 which supersedes Ordinance No. 8027, as well as (ii) the writs of injunction from the RTC presenting the implementation of Ordinance No. 8027, making the Supreme Court's decision and the enforcement of Ordinance No. 8027 improper. Further, Petron, Shell, and Chevron noted the ill-effects of the sudden closure of the Pandacan Terminals on the entire country. On April 23, 2007, the RTC dismissed the case filed by Petron questioning Ordinance 8027.

On February 13, 2008, the Supreme Court allowed the oil companies' intervention but denied their motion for reconsideration, declaring Manila City Ordinance No. 8027 valid and applicable to the oil terminals. The Court dissolved all existing injunctions against the implementation of the ordinance and directed the oil companies to submit their relocation plans to the Regional Trial Court within 90 days to determine, among others, the reasonableness of the time frame for relocation. The Court acknowledged that the removal of the oil depots cannot be rushed and acknowledged that the 6-month period under the ordinance was too short.

On February 28, 2008, Petron, jointly with Chevron and Shell, filed its motion for reconsideration of the Resolution. On May 13, 2008, the three oil companies submitted their Comprehensive Relocation Plans to the RTC in compliance with the February 13 Resolution of the Supreme Court.

The oil companies' motion for reconsideration with the Supreme Court remains pending and the consolidated relocation plans are submitted for RTC's consideration.

In a Resolution dated April 21, 2009, the 1st Division referred to the case En Banc and the latter accepted the same on April 28, 2009. In its April 28, 2009 Resolution, however, the Supreme Court En Banc denied the Motion for Reconsideration. On May 19, 2009, the Petitioner filed a Motion to stop the Mayor of the City of Manila from signing Draft Ordinance No. 7177 but this was denied by the Supreme Court in its June 2, 2009 Resolution for being moot and academic. On November 12, 2009, we received a Notice of Entry of Judgment from the Clerk of Court stating that the March 7, 2007 decision of the Supreme Court had on February 27, 2008 become final and executory and has therefore been recorded in the Book of Entries of Judgment.

The parties filed a Joint Motion to Withdraw Complaint and Counterclaim which was granted by the Court.

Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

**5. Petron Corporation v. The City of Manila, et al.**  
**Civil Case NO. 07-116700**  
RTC Manila Br. 41  
Date Filed: February 8, 2007

Background: The City Council passed the Manila Comprehensive Land Use Plan and Zoning Regulations of 2006 (Ordinance No. 8119), which was approved by Mayor Atienza on June 16, 2006. Ordinance No. 8119 reclassified the area of the Pandacan depots from Industrial to High Density Residential/Mixed Use Zone. Ordinance No. 8119 gave non-conforming establishments, including the oil depots, 7 years to phase out or relocate.

Shell and Chevron filed their Complaint questioning Ordinance No. 8119. The company, which was not allowed to intervene, filed a separate complaint on February 8, 2007, questioning the validity of the Manila City Ordinance No. 8119.

Status: On October 9, 2007, Petron already formally offered its evidence in support of its application for a Writ of Preliminary Injunction. The City of Manila has yet to present its evidence to oppose Petron's application for a Writ of Preliminary Injunction.

Relief sought: Nullification of Ordinance No. 8119

Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

Likely Outcome: Considering the Decision of the Supreme Court in *Social Justice Society v. Atienza*, it is likely that Ordinance No. 8119 will be declared as inapplicable to the oil depots in Pandacan, rendering this case moot, save for the matter of the 10-meter easement from the riverbank being implemented in the subject ordinance.

**6. Social Justice Society (SJS) v. Alfredo S. Lim  
SC G.R. No. 187836 Supreme Court**

Background: This is a petition for prohibition by SJS against Mayor Lim for nullification of Ordinance No. 8187 which repeals both City Ordinance Nos. 8027 and 8119, effectively allowing the continued operation of the oil depots at Pandacan.

Status: On June 1, 2009, Social Justice Society officers filed a petition for prohibition against Mayor Lim before the Supreme Court, seeking the nullification of Ordinance 8187. The lawyers of the oil companies have met and will come up with a plan of action, including intervention once the Supreme Court directs the City of Manila to comment or gives due course to the petition. There has been no official action from the Supreme Court on this latest petition yet. The City filed its Comment on August 13, 2009. Petron filed its Motion for Leave to Intervene dated 11.27.09 and Comment-in-Intervention dated 11.27.09.

This case is consolidated with SC G.R. No. 187916.

Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

Likely Outcome: It is likely that the Court will affirm the validity of Ordinance No. 8187, allowing the continued operation of the oil terminals at Pandacan.

**7. Jose L. Atienza vs. Mayor Alfredo S. Lim  
SC G.R. No. 187916 Supreme Court**

Background: This is the second petition filed against Ordinance 8187. Former Manila Mayor Atienza filed a petition for certiorari for the nullification of Ordinance No. 8187

Status: On June 5, 2009, former Manila Mayor Lito Atienza, represented by the former City Legal Officer, filed his own petition with the Supreme Court seeking to stop the implementation of Ordinance 8187. We have received word that the Court has ordered the City to file its comment but the Court did not issue a temporary restraining order. The City filed its Comment on August 13, 2009.

Petron filed its Manifestation on November 30, 2010 to inform the Supreme Court that it has decided to cease operation of its petroleum product storage facilities in Pandacan, Manila within 5 years or not later than January 2016 due to issues on the environmental and on the location of the terminal.

Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

Likely Outcome: It is likely that the Court will affirm the validity of Ordinance No. 8187, allowing the continued operation of the oil terminals at Pandacan.

## **8. In the Matter of the Sinking of the MT Solar I**

**SBMI No. 936-06**

Special Board of Marine Inquiry

Background: PETRON hired on a “single voyage basis” the vessel MT “SOLAR I” owned by Sunshine Maritime Development Corporation (SMDC for brevity) for the transport of industrial fuel oil from the Petron Refinery in Bataan to Zamboanga. PETRON, as a shipper of the cargo, conducted inspection of the vessel MT “SOLAR I” and likewise, relied on the documents presented by SMDC as carrier. PETRON also relied on the implied warranties of SMDC as “carrier” with respect to the seaworthiness of the vessel MT “SOLAR I” and other statutory/trading certificates issued by the Marine Industry Authority and other pertinent government agencies.

SMDC, taking into consideration the vessel’s trim, stability and draft, declared to PETRON that the vessel MT “SOLAR I” can safely load approximately 13,500 barrels of cargo as stated in the Fixture Note, Notice of Readiness and Seaworthiness Certificate. On this basis, PETRON relying on the declaration of SMDC loaded the quantity as specified by SMDC. Unfortunately, the vessel MT “SOLAR I” sank off Guimaras when it encountered bad weather on or about 11 August 2006.

In September 2006, the Special Board of Marine Inquiry was created by the Philippine Coast Guard for the purpose of determining the administrative liability of the crew, owner of the vessel and other involved parties. The SBMI in its initial findings found Petron liable for allegedly overloading the vessel.

Status: On November 21, 2006, Petron filed a Memorandum of Appeal with the Department of Transportation and Communication (DOTC), elevating the disputed ruling of the BMI for review.

Relief sought: Reversal of the SBMI’s initial finding that Petron was liable for allegedly overloading the vessel.

Exposure: Considering the nature of this investigation, no potential liability exists for Petron at this point.

Likely Outcome: Considering the prevailing law and existing jurisprudence, the company has a very good chance of success, if not with the DOTC, then with the court to which any dispute will eventually be brought.

## **9-10. Dalida and Gacho v.**

**Petron, Sunshine Maritime and Capt. Aguro**

**NPS # VI-08-INV-09F-00081**

Office of the Provincial Prosecutor, Guimaras

Background: This is a complaint filed on July 29, 2009 by Oliver Chavez, supposedly the Municipal Agriculturist of Nueva Valencia, who claims to be suffering from PTB due to his exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill. The respondents are being charged of Violation of the Philippine Clean Water Act of 2004 (RA 9275)

**Oliver Chavez vs. Petron,  
Sunshine Maritime and Capt. Aguro  
NPS # VI-08-INV-09G-00098;  
Office of the Provincial Prosecutor, Guimaras**

Background: This is a complaint filed on July 29, 2009 by Oliver Chavez, supposedly the Municipal Agriculturist of Nueva Valencia, who claims to be suffering from PTB due to his exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill. The respondents are being charged of Violation of the Philippine Clean Water Act of 2004 (RA 9275)

Status: Petron filed a Manifestation adopting counter-affidavits filed in the previous case (which was dismissed) involving the same issues and charges. These 2 cases are now submitted for resolution.

Exposure:

Likelihood of Resolution against Petron:

**11-12. Rogelio Arsenal, Jr., et al. v. SMDC, Petron, et al.  
Civil Case No. 09-0394;  
RTC Br. 65, Jordan, Guimaras**

**Oliver S. Chavez, et al. v. SMDC, Petron, et al.  
Civil Case No. 09-0395;  
RTC Br. 65, Jordan, Guimaras**

Background: These are complaints for compensation for the clean-up operations filed on August 6, 2009 by a total of 1063 plaintiffs who allegedly did not receive any payment of their claims for damages from any of the defendants arising from the oil spill. Total claims for both cases amounts to ₱291.9 Million (₱286.4 Million and ₱5.5 Million).

Status: On January 25, 2010, Summons dated January 18, 2010 were served on Petron's President, VP Marketing, VP Finance, VP Legal, VP Refinery, VP Supply, VP Planning, and Treasurer who were all included as defendants. The Summons, with attached copy of the Complaint, required Petron to file its Answers to the complaints 15 days from their service.

Exposure: ₱292 million

Likelihood of resolution against Petron:

### 13. Bataan Real Property Tax Cases

**Emerlinda Talento vs Hon. Remigio M. Escalada, Jr. and Petron  
G. R. No. 180884  
Supreme Court, Manila Third Division  
Date Filed: January 4, 2008**

**Petron vs. Hon. Garcia, Emerlinda Talento , et al.  
Civil Case No. 8801  
RTC-Balanga, Bataan Br. 3  
Date Filed: October 8, 2007**

Background: On August 21, 2007, Bataan Provincial Treasurer Emerlinda Talento issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of ₱2,168 million allegedly in delinquent real property taxes as of September 30, 2007.

Petron had previously contested the assessments subject of the Notice of Delinquent Real Property Taxes, appealed the same to the Local Board of Assessment Appeals (LBAA), and posted the necessary surety bond to stop collection of the assessed amount. Petron contested the first assessment covering the Isomerization and Gas Oil Hydrotreater (GOHT3) Facilities of Petron which enjoy, among others, a 5-year real property tax exemption under the Oil Deregulation Law (RA 8479) per Board of Investments (BOI) Certificates of Registration. The second assessment is based on alleged non-declaration by Petron of machineries and equipment in its Bataan refinery for real property tax purposes and/or paid the proper taxes thereon since 1994. Petron questioned this second assessment on the grounds that: there was no non-declaration; back taxes can be assessed only for a maximum of 10 years, even assuming fraud; erroneous valuations were used; some adjustments like asset retirement and non-use were not considered; some assets were taken up twice in the assessments; and some assets enjoyed real property tax exemptions.

Notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer proceeded with the publication of the Public Auction of the assets of Petron, which she set for October 17, 2007.

Considering the Treasurer's refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the Regional Trial Court to stop the auction sale. A writ of injunction stopping the holding of the public auction until the case is finally decided was issued by the RTC on November 5, 2007. Acting on the petition of the Provincial Treasurer questioning the same, the Supreme Court upheld the writ of injunction issued by the RTC on June 27, 2008.

In the meantime, the LBAA dismissed the appeal filed by the company on December 10, 2007 on the ground of forum-shopping. This dismissal was reversed by the CBAA and the case was remanded to the LBAA for resolution on August 13, 2008.

Status: The RTC issued a Decision on June 25, 2010 upholding the position of Petron in the case and declaring null and void the demand on Petron for the payment of realty taxes in the amount of ₱1,731,025,403.06 by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently restraining the Provincial Treasurer, from conducting a public auction of the properties of the company pending the finality of the disposition by the LBAA or CBAA on the appeal of the company from the revised assessment of the Provincial Assessor.

The Notice of Appeal filed for defendant was given due course. The entire records of the case were forwarded to the Court of Appeals for further proceedings.

Exposure: If the assessments are finally upheld by the Court, Petron will be made to pay ₱2.168 Billion real property taxes.

Likelihood of Resolution against Petron: The likelihood of adverse resolutions against Petron is nil. In the first assessment, Petron's exemption from real property taxes is supported by RA 8479 and certified to by the Board of Investments upon endorsement by the Department of Energy. For the second assessment of ₱1.7 Billion, the same will mostly likely be nullified as well because Petron will be able to establish, among others, that all machineries and equipment were declared, the Province made erroneous valuations and there were some adjustments in favor of Petron that were not considered.

## PART II - SECURITIES OF THE REGISTRANT

### (A) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

#### (1) Market Information (c/o Mia Santos/Lionel Lopez-Dee)

The registrant's common equity is principally traded at the Philippine Stock Exchange. The high and low sales prices for each period are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price	Date	Price	Date
<b>2010</b>				
1 <sup>st</sup> Quarter	6.20	30-Mar-2010	5.00	22-Jan-2010
2 <sup>nd</sup> Quarter	6.80	14, 19, 26-May-2010	5.90	16, 19, 20-Apr-2010
3 <sup>rd</sup> Quarter	7.10	27-Sept-2010	6.20	24-Aug-2010
4 <sup>th</sup> Quarter	18.82	30-Dec-2010	6.62	20, 21-Oct-2010
<b>2009</b>				
1 <sup>st</sup> Quarter	5.90	26-Feb-2009	4.70	8, 9, 19, 21, 22-Jan-2009
2 <sup>nd</sup> Quarter	6.00	14, 15-Apr; 18, 19, 29-May; 01-June-2009	5.20	23-June-2009
3 <sup>rd</sup> Quarter	5.80	11, 13-Aug-2009	5.10	25, 28, 30-Sept-2009
4 <sup>th</sup> Quarter	5.70	20-Nov-2009	4.95	15-Oct-2009

The total number of stockholders as of December 31, 2010 was 164,167. Price as of last trading day of the year, December 30, 2010, was ₱18.82 per share.

The previous year, the total number of stockholders as of was 176,131 and the stock price was ₱5.30 per share as of December 29, 2009.

## (2) Holders

### List of Top 20 Stockholders (COMMON) As of December 31, 2010

	STOCKHOLDER NAME	NATIONALITY	TOTAL SHARES	%
1	SEA Refinery Corporation	Filipino	4,696,885,564	50.10%
2	Petron Corporation Employees Retirement Plan	Filipino	2,276,456,097	24.28%
3	San Miguel Corporation	Filipino	1,702,870,560	18.16%
4	PCD Nominee Corp. (Filipino)	Filipino	124,700,302	1.33%
5	PCD Nominee Corp. (Non-Filipino)	Foreign	24,024,079	0.26%
6	Ansaldo Godinez & Co. Inc. FAO Mark V. Pangilinan	Filipino	8,000,000	0.09%
7	Ernesto Chua Chiaco &/ir Margaret Sy Chua Chiaco	Filipino	7,780,000	0.08%
8	Ernesto Chua Chiaco	Filipino	7,550,000	0.08%
9	Marciano V. Pangilinan	American	5,000,000	0.05%
10	Raul Tomas Concepcion	Filipino	3,504,000	0.04%
11	Ernesto Chua Chiaco	Filipino	3,450,000	0.04%
12	Ching Hai Go &/or Martina Go	Filipino	2,500,000	0.03%
13	Genevieve S. Chua Chiaco	Filipino	2,400,000	0.03%
14	Allied Banking Corporation	Filipino	2,145,000	0.02%
15	Shahrad Rahmanifard	Iranian	2,000,000	0.02%
16	Frank Chua &/or Genevieve Lim Chua	Filipino	1,453,588	0.02%
17	Ernesson S. Chua Chiaco	Filipino	1,450,000	0.15%
18	Mateo Lim	Filipino	1,244,500	0.01%
19	Celebrada C. Chua	Filipino	1,235,400	0.01%
20	South China Petroleum & Exploration Inc.	Chinese	1,147,500	0.01%

### List of Top 20 Stockholders (PREFERRED) As of December 31, 2010

	STOCKHOLDER NAME	NATIONALITY	TOTAL SHARES	%
1	PCD Nominee Corp. (Filipino)	Filipino	67,767,390	67.77%
2	PCD Nominee Corp. (Non-Filipino)	Foreign	29,916,210	29.92%
3	Knights of Columbus Fraternal Association of the Phils. Inc.	Filipino	500,000	0.50%
4	AFP Retirement and Separation Benefits System	Filipino	500,000	0.50%
5	HSY Realty & Development Corp.	Filipino	150,000	0.15%
6	Securities Investors Protection Fund, Inc.	Filipino	110,000	0.11%
7	Safeway Customs Brokerage, Inc.	Filipino	60,000	0.06%
8	Knights of Columbus Fr. George J. Willman Charities	Filipino	60,000	0.06%
9	Vichelli Churchill Say	Filipino	59,000	0.59%
10	Carmencita R. Gutierrez &/or Girma L. Gutierrez	Filipino	51,000	0.51%
11	Elena Tan Lao	Filipino	50,000	0.50%
12	Reynaldo R. Sarmenta &/or Rosario G. Sarmenta	Filipino	50,000	0.50%
13	Eva A. Yulo	Filipino	50,000	0.50%
14	Armando Hun &/or Mary Kathlyn Khong Hun	Filipino	50,000	0.50%
15	Sally Bayle &/or Silvestre Bayle	Filipino	50,000	0.50%
16	KC Philippines Foundation Inc.	Filipino	40,000	0.40%
17	Frances Melanee C. Keh	Filipino	30,000	0.30%
18	Reynaldo G. Alejandro	Filipino	30,000	0.30%
19	Antrilla Resources Corporation	Filipino	30,000	0.30%
20	Manuel E. Roque	Filipino	21,000	0.21%

### (3) Dividends

Petron's dividend policy is to declare as dividends out of the company's unrestricted retained earnings at least 25% of its unappropriated net income (after taxes) for the prior fiscal year, payable either in cash, property or shares. The Board shall determine, by resolution, the exact amount, date and shareholders entitled to such dividends.

For preferred shares, it shall be at a fixed rate of 9.5281% per annum calculated in reference to the offer price of ₱100 per share on a 30/360-day basis and shall be payable quarterly in arrears, whenever approved by the Board. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Since its listing in March 2010, cash dividends have been declared in March, June, September, and December of each year.

A ₱0.10 per share cash dividend for common shareholders was approved by the Board on July 12, 2010. Total amount was at ₱938 million, with record date on July 30, 2010 and payment date of August 16, 2010. No cash dividend for common shares was declared in 2009.

Similarly, a cash dividend of ₱0.10/share was also approved by the Board on May 7, 2008, which included all stockholders on record as of June 2, 2008 and payment date of June 27, 2008.

### (4) Sale of Unregistered or Exempt Including Securities Constituting an Exempt Transaction

#### 1. Fixed Rate Corporate Notes

- a. In August 2006, the Company issued five-year Fixed Rate Corporate Notes amounting to ₱6.3 billion through private placement to not more than nineteen primary institutional lenders, arranged by BPI Capital and ING. Subsequently in June 2009, the Company issued five and seven-year Fixed Rate Corporate Notes totaling ₱10 billion to primary institutional lenders not exceeding nineteen, arranged by BPI Capital, DBP, The Hongkong and Shanghai Banking Corporation Limited and ING.
- b. The Company did not seek written confirmation from the Commission that such issuances are exempt from registration.

#### 2. ₱20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars (the "Notes")

Under Republic Act No. 8799, known as the Securities Regulation Code (the "Code"), and its implementing rules, securities, such as the Notes, are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are approved for registration by the SEC or are otherwise exempt securities under Section 9 of the Code or sold pursuant to an exempt transaction under Section 10 of the Code.

The Notes are issued by Petron. The Notes will bear interest from and including November 10, 2010 at the rate of 7.0% per annum, payable semi-annually in arrears on May 10 and November 10 of each year, with the first interest payment to be made on May 10, 2011. The Notes will mature on November 10, 2017.

The Notes were offered in the Philippines to not more than nineteen (19) non-qualified buyers and to any number of qualified buyers as defined in the Code. The offer and sale of the Notes qualify as an exempt transaction pursuant to sections 10.1 (k) and 10.1(l) of the Code. A confirmation of exemption from the SEC that the offer and sale of the Notes in the Philippines qualify as an exempt transaction under the Code is not required to be, and has

not been, obtained. Nevertheless, in compliance with applicable regulations, a Notice of Exemption is required to be filed, and will be filed, after the issuance of the Notes.

The Notes offered or sold have not been registered with the SEC under the Code. Any future offer or sale thereof is subject to registration requirements under the Code, unless such offer or sale qualifies as an exempt transaction.

## **(B) Description of Petron's Shares**

The registrant's securities consist of common stock with par value of ₱1.00 per share and preferred shares with par value of ₱1.00 per share. Total common shares are 9,375,104,497 which are voting shares, while preferred shares, consisting of 100,000,000 shares, are generally non-voting except in cases provided by law.

## **(C) Stock Ownership Plan**

Currently, Petron does not have a stock ownership plan or program. In 1994, when Petron's initial public offering (IPO) was undertaken, a special secondary sale of Petron's shares was offered to employees. Entitlement of shares at the listing price of ₱9.00 per share was made equivalent to the employee's base pay factored by his/her service years with Petron. Petron's Executive Officers, except the Chairman, the President and the Vice President for Corporate Planning, were entitled to own Petron shares under this SOP.

Preparatory to the listing of the Company's preferred shares, availment of said shares were offered to employees from February 15 to 19, 2011.

## PART III - FINANCIAL INFORMATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND OTHER INFORMATION

#### Financial Condition and Results of Operations

##### Results of Operations

##### 2010 Vs 2009

Petron ended 2010 with a consolidated **net income** of **₱ 7.92 billion**, ₱ 3.67 billion higher than the ₱ 4.26 billion earnings reported in 2009. The growth in profit was attributed largely to the substantial increase in export sales and higher non-operating income.

**Sales volume** went up to **48.29 million barrels (MMB)**, from last year's 44.22MMB. Year 2010 saw a 73% surge in petrochemical sales volume as it marked the first full year of operations in the company's Benzene, Toluene and Mixed Xylene (BTX) unit which was commissioned in April 2009. Petrochemical sales hit 3.3 million barrels in 2010 compared to 1.9 million barrels the previous year. On the back of higher petrochemical sales, the company's total export volumes increased by 48% to 5.2 million barrels in 2010 versus 3.5 million barrels in 2009. Domestic sales volumes, meanwhile, increased by nearly 6% to 43.1 million barrels in 2010 from 40.7 million barrels a year before attributed to increased economic activity, aggressive solicitation of new accounts and expansion of its service station network.

**Net sales** for the year reached **₱ 229.09 billion**, 30% better than the ₱ 176.53 billion level a year earlier, chiefly due to higher average selling price per liter (2010: ₱ 29.18 vs. 2009: ₱ 24.52) as regional MOPS prices perked up to an average of US\$82.73/bbl from US\$64.98/bbl of last year. Higher price was complemented by increase in volume.

Similarly, **Cost of Goods Sold (CGS)** went up by 30% or ₱ 47.70 billion from previous year's ₱ 161.58 billion to **₱ 209.28 billion** level. The increase was prompted by higher FOB of crude that went into cost (2010: US\$77.57/bbl vs. 2009: US\$62.34/bbl), along with the escalation in volume.

**Refinery Operating Expenses** that formed part of CGS totaled **₱ 4.98 billion**, 4% lower than the total expenses incurred in 2009. The positive variance was brought about by lower maintenance and repairs (M&R) and depreciation. The substantial part of M&R in 2009 were related to the restoration of facilities damaged by fire in November 2008 plus turnaround activities of some units. Meanwhile, some units were already fully depreciated at the start of 2010, hence, the drop in depreciation expense.

**Selling & Administrative Expenses (OPEX)** summed up to **₱ 7.30 billion**, 27% higher than the ₱ 5.75 billion level in 2009. Higher provision for bad debts, additional leases for new service stations, and increased purchases of LPG cylinders were the principal contributors for the rise in OPEX. Despite the increase in sales volume, **OPEX per liter** rose by 16% or ₱ 0.13 from ₱ 0.82 of last year to **₱ 0.95** in 2010.

**Net Financing Costs & Other Charges** dropped significantly to **₱ 2.21 billion** from the **₱ 3.45 billion** level reported last year. Better financing costs was due to higher interest income coupled with foreign exchange translation gains on dollar-denominated transaction.

With the significant improvement in income, **Income tax expense** rose to **₱ 2.38 billion** from the ₱ 1.49 billion level in 2009.

**Earnings per share** increased by 71% to **₱ 0.77**, from ₱ 0.45 of last year.

#### 2009 vs. 2008

Petron bounced back to profitability in 2009, posting a **net income of ₱ 4.26 billion** versus the record loss of **₱ 3.92 billion** in 2008. The Company attributed its strong performance to more stable crude and finished product prices in 2009 relative to the year before. It can be recalled that 2008 was an abnormal year for many oil refiners who experienced extreme volatility in crude prices when the demand for oil contracted resulting in the steep decline in refined product prices starting in the third quarter of 2008 to first quarter of 2009. Nevertheless, Petron was able to maximize trading gains during the first quarter of 2009 with the sale of cheaper imported products due to the total shutdown of its Refinery until mid-February 2009. Earnings were further boosted by foreign exchange gains versus losses the previous year as the Philippine peso strengthened vis-à-vis the US dollar in 2009 favoring the Company's foreign-denominated transactions.

**Sales volume** dropped to **44.22 million barrels (MMB)** from 2008's level of 49.66MMB. The 11% or 5.44MMB decline in volume was traced essentially to lower exports and supply sales (by 5.80MMB). This was partly offset by the slight increase in domestic volumes (by 0.36MMB) due mainly to the growth in kerojet and petrochemical sales.

**Net Sales** were down by 34% or **₱ 91.15 billion** due to lower average selling prices of petroleum products (2009 per liter: ₱ 24.52 vs. 2008: ₱ 33.37). From **₱ 267.68 billion** in 2008, sales dropped to **₱ 176.53 billion** in 2009.

**Cost of Goods Sold (CGS)** dipped to **₱ 161.58 billion** from previous year's **₱ 264.31 billion**. The substantial reduction was brought about mainly by lower duty paid landed cost (DPLC) per liter of crude this year that formed part of CGS at an average of **₱ 19.39** versus **₱ 29.77** in 2008. Moreover, as prices had become more stable, inventory write-down declined significantly to only **₱ 0.08 billion** at end-2009 compared to year-end 2008 of **₱ 2.43 billion** when crude prices dropped sharply starting August until March 2009.

**Refinery Operating Expenses** that went into CGS rose by 14% or **₱ 0.65 billion** from last year's **₱ 4.54 billion** to **₱ 5.19 billion**. The highest expense was on non-cash depreciation charges largely due to the completion of the BTX (Benzene, Toluene Extraction) unit. Under cash operating expenses, increases were posted in maintenance and repairs related to the fire incident in November 2008, purchased power and other services as well as on real property taxes with the completion of new projects. Owing to the rise in expenses coupled with the reduction in crude run (2009: 91 mbd vs. 2008: 114 mbd), **cost per liter of crude processed** increased by 42% or **₱ 0.29** from 2008's **₱ 0.69**.

**Selling & Administrative Expenses (OPEX)** surpassed 2008 level of **₱ 5.22 billion** by 10% to **₱ 5.75 billion**. Increased non-cash expenditures were noted on higher accrual of pension expense and cash expenses particularly purchased services, rent, employee-related costs, maintenance and repairs and materials and supplies. **OPEX per liter** climbed by 24% or **₱ 0.16** to **₱ 0.82** this year from the previous year's **₱ 0.66** owing to the decline in sales volume.

**Net Financing Costs & Other Charges** stood at **₱ 3.45 billion** or 12% lower than 2008's level of **₱ 3.94 billion**. While financing costs rose due to increased interest rates with the issuance of **₱ 10 billion FXCN** in June 2009, this was mitigated by foreign exchange gains versus losses in 2008 due to more stable Philippine peso against the US dollar.

**Income tax expense** of **₱ 1.49 billion** was a reversal from the **₱ 1.87 billion** tax benefit in 2008 due essentially to the net income this year.

With the positive bottom line, **earnings per share** grew by 207% to **₱ 0.45** in 2009 from negative **₱ 0.42** the year before.

#### 2008 vs. 2007

With a four-month consecutive operating losses starting September, the Company suffered a **net loss of ₱ 3.92 billion** in 2008, a reversal from the **₱ 6.39 billion net income in 2007**. The significant decline in the Company's bottom line was largely attributed to contraction in margins (Gross Profit 2008 **₱ 3.37 billion** vs. 2007's **₱ 15.23 billion**) as domestic prices fell at a faster rate than crude costs starting the third quarter while increased borrowing levels to finance the expensive crude in the first half of the year led to higher financing costs (by **₱ 2.37 billion**). The global financial crisis also resulted in rising interest rates for all of the Company's borrowings. This was exacerbated by weaker US dollar and volatility of international crude and product prices that resulted in exchange losses and rising hedging costs. However, the tax benefit of **₱ 1.87 billion** due largely on the effect of the Net Operating Loss Carry-over (NOLCO) partly reduced the loss before income tax of **₱ 5.79 billion** to a negative bottom line of **₱ 3.92 billion**.

**Sales volume** registered an overall 2.60 million barrels drop from last year's 52.26 million barrels to **49.66 million barrels** in 2008. Export sales suffered cut back by 18% (1.86 MMB) while domestic demand decreased by 2% (0.7 MMB) resulting from record-high fuel prices.

**Net Sales** surpassed the 2007 level by **₱ 57.16 billion** from **₱ 210.52 billion** to **₱ 267.68 billion** this year due to successive price increases during the first half of the year. This was complemented by lighter sales mix with the commissioning of the Company's Petro Fluidized Catalytic Cracking Unit (PFCCU) and Propylene Recovery Unit (PRU) that had enabled the refinery to convert a portion of its fuel oil volume to higher valued white products, such as propylene, LPG and gasoline.

**Cost of Goods Sold (CGS)** rose to **₱ 264.31 billion** from the year-ago figure of **₱ 195.29 billion**. Higher duty paid landed cost (DPLC) per liter of crude this year that formed part of CGS was pegged at an average of **₱ 29.72** versus **₱ 20.28** in 2007. Moreover, as experienced by other refineries in the region in the aftermath of the steep decline in crude and product prices, the Company also considered a mark down of its inventory amounting to **₱ 2.43 billion**. Crude volatility reached 300% as crude peaked at **US\$141/bbl** in July and crashed to **US\$40** in December triggering a continued fall in the regional prices of petroleum products.

**Refinery Operating Expenses** that went into CGS escalated by **₱ 1.06 billion** from prior year's **₱ 3.48 billion** to **₱ 4.54 billion**. Increased expenditures were recorded on depreciation of the new PFCCU and PRU; maintenance/re-servicing works related to conversion of the Thermoform Catalytic Cracker Unit to PFCCU and deferred turnaround of Atmospheric Pipestill; and, purchased utilities caused by the transfer of the Gas Oil Hydrotreater power from internal to external source to accommodate the power requirement of the PFCCU.

Owing to increased operating expenses (OPEX) and reduced crude run (2008: 113 mbd vs. 2007: 129 mbd), **cost per liter of crude** processed increased by 48% or **₱ 0.22** over 2007's **₱ 0.47**.

**Selling & Administrative Expenses** were trimmed down by 2% (**₱ 0.11 billion**) from **₱ 5.33 billion** the preceding year to **₱ 5.22 billion** this year. Reduced expenditures were noted under business expenses resulting from decreased sponsorships; employee-related costs; and, materials and supplies with the deferral of LPG cylinder purchases.

**OPEX per liter** rose slightly by **₱ 0.01** from the previous year's level as sales volume declined by 5% or 2.57 million barrels.

**Net Financing Costs & Other Charges (P 3.94 billion)** rose more than seven times compared the corresponding period in 2007 (P 0.56 billion). The Company's higher financing costs were mainly the outcome of the increase in level of borrowings (due to expensive crude and product imports) and higher interest rates due to the global financial crisis (2008: P 36.39 billion at 7.2% vs. P 21.34 billion at 5.4%). Thus, the P 4.18 billion interest expense largely on short-term peso loans more than doubled the previous year's P 1.81 billion total. Meanwhile, the foreign exchange (forex) and hedging activities on dollar-denominated transactions in 2008 resulted in losses and hedging costs of P 1.0 billion, a reversal from the forex and hedging gains of P 1.2 billion the year before.

**Loss per share of P 0.42** in 2008 was a turnabout from the earnings per share of P 0.68 in 2007. Consequently, the net loss resulted to negative **1.5% return on net sales**.

## Financial Condition

### 2010

Petron closed 2010 with **total resources of P 161.82 billion**, 44% or P 49.08 billion higher than end-December 2009 level of P 112.74 billion.

**Cash and cash equivalents** increased significantly from P 12.99 billion to **P 43.98 billion** principally due to the proceeds from loan availments and issuances of bonds and preferred shares.

**Financial assets at fair value through profit or loss** grew by 9% from P 208 million to **P 227 million** due mainly to the improvement in the marked-to-market value of marketable securities and club membership shares.

**Available-for-sale financial assets** (current and non-current) declined by 14% from P 1.36 billion to **P 1.16 billion** on account of the maturity of investment in government securities of the local insurance subsidiary.

**Trade and Other Receivables-net** amounted to **P 24.27 billion**, 18% or P 5.43 billion lower than the P 29.70 billion level as of December 31, 2009 mainly due to the drop in government receivables as a result of significant utilization of tax credit certificates.

**Assets held for sale of P 823 million** consisted of office units for sale. This was classified as property, plant and equipment and investment properties in 2009.

**Investment in associates** stood at **P 804 million**. This comprised of the company's equity in Petrochemical Asia Hongkong Limited (PAHL) and Limay Energen Corporation (LEC).

**Investment Properties-net** of **P 119 million** was 49% below the P 232 million figure reported in December 2009 chiefly due to the transfer of the book value of Petron Megaplaza Offices to assets held for sale.

**Deferred tax assets- net** went up to **P 28 million** from the end-December 2009 balance of P 7 million due mainly to the effect of translation adjustment of the foreign insurance subsidiary.

**Other non-current assets- net** were considerably higher at **P 23.02 billion** this year from P 0.88 billion in year-end 2009 primarily traced to advances to the retirement fund.

**Short-term loans and liabilities for crude oil and petroleum product importations** went down by 13% (P 6.62 billion) to **P 43.65 billion** principally due to settlements made partly countered by higher crude importations.

**Trade and other Payables** grew by 37% (P 1.83 billion) to **P 6.74 billion** on account of higher liabilities to contractors and suppliers for the company's capital projects.

**Derivative Liabilities** increased significantly from P 1 million to **P 30 million** level mainly due to marked-to-market loss on outstanding embedded derivatives.

**Income tax payable** increased to **P 14 million** from P 10 million as at December 31, 2009 owing to higher tax liabilities reported by the subsidiaries.

**Long-term debt inclusive of current portion** showed a significant movement from P 18.89 billion to **P 54.40 billion** due to the newly-availed NORD loan amounting to US\$355 million and proceeds from issuance of Bonds equivalent to P 20.00 billion partly reduced by amortizations of outstanding loans.

**Retirement benefits liability of P 249 million** was five times higher the previous year's amount of P 50 million as the increase in benefits paid during the year resulted to lower value of Retirement Plan's assets.

**Deferred tax liabilities-net** grew considerably from P 364 million to **P 1.96 billion** largely due to the impact of NOLCO as well as temporary differences reflected under parent and subsidiaries' accounts.

**Asset Retirement Obligation** escalated to **P 815 million** from P 541 million the year earlier mainly due to higher estimated dismantling cost.

**Other non-current liabilities** rose by 19% or P 98 million from P 511 million to **P 609 million** mainly due to the increases in cylinder deposits and cash bond.

**Total equity attributable to equity holders of the parent company** aggregated **P 53.07 billion** at the end of December 2010 showing a 44% or P 16.13 billion improvement over the end-December 2009 level due to the combined effect of the following:

- ◆ **P 9.86 billion** issuance of preferred shares, net of issue cost
- ◆ **P 7.92 billion** full year net income partly reduced by the **P 1.65 billion** dividends on common and preferred shares.

**Other reserves** increased by 41% to **P 83 million** from P 59 million due to translation adjustment of the company's foreign subsidiary.

## 2009

Petron's total asset base as at year-end 2009 posted a modest growth of 1% or P 0.97 billion to close at **P 112.74 billion** from P 111.78 billion.

**Available-for-sale investments** (current and noncurrent) nearly doubled to **P 1.36 billion** from last year's balance of P 0.68 billion as the Company's insurance subsidiaries increased its investments in government securities and ROP bonds.

**Trade and Other Receivables-net** surged to **P 29.70 billion** from P 16.88 billion essentially on account of the filing of claims from government agencies on tax refund; and from trade accounts due to higher selling prices towards year-end.

**Inventories-net** declined by 9% or P 2.62 billion to settle at **P 28.17 billion** this year from P 30.79 billion a year earlier. The substantial drop in volumes (by 3.2MMB valued at P 9.53 billion) more than offset higher costs (December 2009: P 26.97 per liter vs. December 2008: P 19.62 per liter) translated to **P 6.85 billion**.

**Other current assets** posted decline of 63% or ₱ 7.49 billion to **₱ 4.43 billion** from ₱ 11.92 billion essentially due to the filing of Input VAT claims which had been reclassified to receivables account.

**Property, plant and equipment (PPE)-net** showed a reduction of 5% or ₱ 1.64 billion to **₱ 34.78 billion** from ₱ 36.43 billion as there were no major additions during the year. On the other hand, the BTX unit started commercial operations in April 2009.

**Investment properties-net** were lower by ₱ 0.01 billion compared with prior year's ₱ 0.25 billion attributable mainly to depreciation charges for the year.

**Deferred tax assets-net** decreased significantly to **₱ 0.01 billion** relative to 2008's ₱ 0.90 billion due to the combined effect of the inventory differential (MAP vs. FIFO) and the reversal in 2009 of the 2008 inventory write down.

**Short-term loans and supplier's credit** declined by 20% or ₱ 12.61 billion from ₱ 62.89 billion to **₱ 50.27 billion** triggered mainly by lower levels of crude and product purchases towards year-end.

**Trade and other payables** moved up to **₱ 4.92 billion** from last year's ₱ 4.56 billion traced largely to higher accrual of operating expenses and unpaid interest partly offset by the settlement of retention payables to the contractors of the completed BTX project.

**Long-term debt inclusive of current portion** rose by 84% or ₱ 8.64 billion to **₱ 18.89 billion** pertaining to the issuance of the ₱ 10 billion FXCN in June 2009 partly reduced by the quarterly amortization of other peso loans.

**Income tax payable** went down to **₱ 0.01 billion** from ₱ 0.02 billion (by 55% or ₱ 0.01 billion) resulting from lower tax liabilities of the subsidiaries.

**Deferred income tax liabilities** rose to **₱ 0.36 billion** from a minimal amount the previous year attributable to the temporary differences in the computation of income tax, particularly the reversal this year of inventory write down in 2008.

**Asset Retirement Obligation** of **₱ 0.54 billion** showed a 23% or 0.17 billion drop versus the 2008 balance of ₱ 0.71 billion influenced mainly by the effect of change in discount rate used.

**Other non-current liabilities** recorded a 11% or ₱ 0.05 billion increase as against last year's ₱ 0.46 billion mainly due to higher cash bond.

**Retained Earnings** recorded an 18% or ₱ 4.24 billion growth to **₱ 27.51 billion** from ₱ 23.27 billion representing the parent net income for the year.

**Other reserves'** grew to **₱ 0.06 billion** from ₱ 0.01 billion in 2008 due to unrealized fair value gains on available-for-sale financial assets.

## 2008

Petron's consolidated resources as at December 31, 2008 rose to **₱ 111.78 billion** (by 7% or ₱ 7.30 billion) over end-December 2007 balance of ₱ 104.47 billion.

**Cash and cash equivalents** went up by 32% or ₱ 3.10 billion to **₱ 12.83 billion** as cash cycle shortened to 53 days from 70 days in 2007.

Financial assets at fair value through profit or loss decreased by **6% (P 0.01 billion)** from **P 0.23 billion to P 0.22 billion**, brought about by the drop in market values of investments in marketable equity securities and proprietary membership shares.

**Available-for-sale investments** (current and noncurrent) rose slightly to **P 0.68 billion** from last year's balance of P 0.63 billion as the Company increased its investment in government securities.

**Receivables-net** slid to **P 16.88 billion** from P 17.87 billion on account primarily of higher collections from trade accounts partly offset by the increase in VAT and specific tax (SPT) claims. The increase in SPT claims was driven by the product replenishment scheme implemented by the BIR in March 2008.

**Inventories**, at net realizable value, registered a minimal increment of P 0.52 billion to settle at **P 30.79 billion** in 2008. The 565 MB build-up in volume of finished products valued at P 2.00 billion was partly offset by the drop in product cost (December 2008; P 19.62 per liter vs. December 2007: P 22.31 per liter) amounting to P 1.70 billion.

**Other current assets** showed an increase of 12% (P 1.25 billion) to **P 11.92 billion** from P 10.67 billion traced mainly to the increase in Input VAT and product replenishment claims.

**Property, plant and equipment** grew by 7% or P 2.30 billion to **P 36.43 billion** primarily on account of capital investments in the Refinery, particularly PFCCU (P 1.09 billion) and the construction of Benzene, Toluene, and Mixed Xylene (BTX) plant (P 2.51 billion).

**Investment properties** were higher by P 0.04 billion compared with prior year's P 0.21 billion driven mainly by real estate acquisitions for future service station sites.

**Deferred tax assets** rose significantly to **P 0.90 billion** relative to 2007's P 0.001 billion traced largely to the NOLCO (Net Operating Loss Carry-Over).

**Other non-current assets** closed at **P 0.89 billion**, posting a 21% (P 0.15 billion) increment over the previous year brought about mainly by increased long-term receivables.

**Short-term loans and supplier's credit** moved up by 35% (P 16.23 billion) to **P 62.89 billion** due essentially to higher borrowing level to augment working capital requirements.

**Accounts payable and accrued expenses** inched up to **P 4.56 billion** from last year's P 4.54 billion traced largely to liabilities to contractors and suppliers as well as accrual of operating expenses and interest on loans.

**Long-term debt inclusive of current portion** decreased by 20% (P 2.53 billion) to **P 10.25 billion** traceable to the settlement of the NORD loan in December amounting to US\$45 million.

**Income tax payable** went down to **P 0.02 billion** (by 96% or P 0.50 billion) as a result of the net loss reported by the parent company.

**Deferred income tax liabilities** declined by 99% to **P 0.01 billion** attributable to the temporary differences, particularly the recognized NOLCO and MCIT (Minimum Corporate Income Tax).

**Other non-current liabilities** went up by 28% (P 0.25 billion) mainly because of the increment in Asset Retirement Obligation.

**Retained Earnings** slid by P 5.43 billion to **P 23.27 billion** as a result of the combined effect of the net loss reported by the parent company and dividends declaration amounting to P 3.92 billion and P 0.94 billion, respectively.

## Cash Flows

### 2010 Vs 2009

With a stronger EBITDA and lower working capital, **Net cash inflows from operating** activities increased significantly to **₱ 17.45 billion** from **₱ 4.65 billion** a year earlier. Internally generated funds were augmented by the availment of long-term loans and the issuances of bonds and preferred shares.

Funds available from proceeds of loans and preferred shares were used to pay-off partly the company's short-term debts and fund its capital programs.

The company ended the year 2010 with a cash balance of **₱ 43.98 billion**.

### 2009 vs. 2008

With a strong EBITDA, the Company's **net cash inflow** from operating activities soared to **₱ 4.65 billion** from a negative outflow of **₱ 3.41 billion** in 2008.

### 2008 vs. 2007

Petron generated an **operating cash outflow** of **₱ 3.41 billion**, a turnabout from the **₱ 5.66 billion** inflows the previous year. The negative cash flow was influenced largely by the sharp decline in cash earnings coupled with higher borrowing level.

## Financial Condition

Item 7. Financial Statements	2010	2009	2008
<b>b) Cash and Cash Equivalents</b>			
Cash in bank (Peso)	2502	861	2,386
Cash in bank (US\$)	320	699	392
Cash on hand	3,626	3,101	4,536
Marketable securities	37,536	8,324	5,513
<b>Total</b>	<b>43,984</b>	<b>12,985</b>	<b>12,827</b>
<b>c) Accounts Receivables-Others</b>			
Borrow and loan	66	327	199
Others	3,917	3,733	2,303
<b>Total</b>	<b>3,983</b>	<b>4,060</b>	<b>2,502</b>
<b>d) Selling and Administrative Expenses</b>			
Depreciation and amortization	1,258	1,083	1,071
Employee costs	1,972	1,625	1,375
Purchased services and utilities	1,311	1,332	1,202
Maintenance and repairs	551	522	482
Advertising	222	222	235
Rent expense	544	479	411

Materials and office supplies	397	211	181
Taxes and licenses	205	136	136
Impairment loss on trade and other receivables/ receivables written-off	481	58	71
Others	362	80	58
<b>Total</b>	<b>7,303</b>	<b>5,748</b>	<b>5,222</b>
<b>e) Other Income, Interest Expense and Others</b>			
Interest income	839	205	354
Interest expense	(4,309)	(4,251)	(4,180)
Rent income	215	346	357
Derivatives- net mark to market (MTM) gain (loss)	(98)	(409)	179
Foreign exchange gain (loss) - net	1,465	146	(1,708)
Commodity hedging gain (loss)	13	461	1,159
Changes in fair value of financial assets at FVPL	64	22	(67)
Insurance claims	97	172	33
Gain on ARO settlement	18	14	8
Miscellaneous	(365)	(155)	(76)
<b>Net</b>	<b>(2,061)</b>	<b>(3,449)</b>	<b>(3,941)</b>

#### Top Five (5) Key Performance Indicators

Ratio	Dec-10	Dec-09	Dec-08
Current Ratio	1.6	1.3	1.1
Debt Equity Ratio	2.0	2.0	2.4
Return on Equity (%)	17.4	12.1	(11.1)
Debt Service Coverage	4.2	3.8	1.2
Tangible Net worth	P 53.3B	P 37.2B	P 32.9B

**Current Ratio** - Total current assets divided by total current liabilities.

This ratio is a rough indication of a company's ability to service its current obligations. Generally, the higher the current ratio, the greater the "cushion" between current obligations and a company's ability to pay them.

**Debt Equity Ratio** - Total liabilities divided by tangible net worth.

This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. It expresses the degree of protection provided by the owners for the creditors. The higher the ratio, the greater the risk being assumed by creditors. A lower ratio generally indicates greater long-term financial safety.

**Return on Equity** - Net income divided by average total stockholders' equity.

This ratio reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. A business that has a high return on equity is more likely to be one

that is capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.

**Debt Service Coverage** - Free cash flows add available closing cash balance divided by projected debt service.

This ratio shows the cash flow available to pay for debt to the total amount of debt payments to be made. It also measures the company's ability to settle dividends, interests and other financing charges.

**Tangible Net Worth** - Net worth minus intangible assets.

This figure gives a more immediately realizable value of the company.

## Business Condition

- **Philippine GDP strongly rebounded in 2010 after a sluggish growth in 2009** - After the slow economic growth of only 1.1% in 2009 due to the ill effects of the global economic crisis, the Philippines robustly recovered and expanded by 7.3% in 2010. The country benefitted from the improvement in the global economy, high election-spending and favorable business conditions in the local economy.
- **Oil demand continued to grow in 2010** - After growing by 6% in 2009, the industry oil demand continued to expand in 2010 and rose by around 3.3% (based on tentative data from DOE). From 294 thousand barrels per day (MBD) in 2009, demand grew to 303.7 MBD supported by healthy business environment during the year. High GDP growth, hefty election spending, strong personal consumption with rising OFW remittances, and increasing vehicle sales pushed oil demand.
- **Peso strengthened in 2010** - The stability of the Philippine's currency in 2009 was followed by an appreciating peso in 2010. From an average of P47.6/\$ in 2009, peso strengthened and averaged P45.1/\$ in 2010. It ended the year at P43/\$ level as high dollar inflows from strong rebound of exports, high OFW remittances and foreign investments boosted the peso. Appreciating peso makes the Company's import costs and value of foreign-denominated debts lower.
- **Stable inflation and low interest rates in 2010** - From a low inflation of 3.2% in 2009, the hike in prices in 2010 has been manageable with inflation averaging 3.8%. The gradual hike in commodity, food and services prices during the year contributed to the benign inflation sustained in 2010.
- **Oil prices sustained its uptrend in 2010.** The uptrend of oil prices in 2009 was sustained in 2010. From \$61.9/bbl in 2009, Dubai averaged \$78.1/bbl in 2010. Growth in world oil demand especially in the emerging countries like China and India, recovery of the global economy, and improving equities market supported the rising prices of crude. Speculation manifested by high levels of managed money in crude also influences the oil market, pushing oil prices higher.
- **Industry competition remained tight.** New players remain aggressive in strengthening their hold of the market. Their collective market share<sup>1</sup> has grown to an estimated 21.3% in 2010 from 18.8% in 2009 as they have implemented different marketing strategies and continuously expanded their service station network. The new players have also been very aggressive in the LPG market collectively capturing around 48.6% of the total LPG market.
- **Illegal trading practices persisted.** Despite the government's and private sector's efforts to fight smuggling through different programs, cases of illegal activities (e.g. "bote-bote" retailing, illegal refilling) have persisted following the market's deregulation. This has resulted in unfair competition among players and lost tax revenues for the government.

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<sup>1</sup> Excludes end-users' direct imports of jet fuel

**Any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.**

### **TCC-Related Matters**

In 1998, the BIR issued a deficiency excise tax assessment against Petron. The assessment relates to Petron's use of P659 worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron is contesting the BIR's assessment before the Philippine Court of Tax Appeals ("CTA"). In July 1999, the CTA ruled that, as a fuel supplier of Board of Investments-registered companies, Petron is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the Supreme Court. A Resolution was issued by the Supreme Court (1st Division) on September 13, 2010 denying with finality CIR's motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a P284 assessment against Petron for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to the Parent Company. Petron contested the assessment before the CTA. In August 2006, the CTA denied Petron's petition, ordering it to pay the BIR P580 representing the P284 unpaid deficiency excise from 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In July 2010, the Philippine Supreme Court ("SC") nullified the assessment against Petron and declared Petron as a valid transferee of the TCCs. A motion for reconsideration filed by the BIR was denied with finality on September 13, 2010.

In May 2002, the BIR issued a P254 assessment against Petron for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In May 2007, the CTA second division denied Petron's petition, ordering Petron to pay the BIR P601 representing Petron's P254 unpaid deficiency excise taxes for the taxable years 1995 to 1998, and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA *en banc*, which ruled in favor of Petron, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC where the case is still pending as of March 14, 2011.

There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to P911.

### **Pandacan Terminal Operations**

In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of Petron, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into a Memorandum of Understanding ("MOU") with the City of Manila and DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, Social Justice Society ("SJS") filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, Petron filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (“Ordinance 8119”), which applied to the entire City of Manila. Ordinance 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the “March 7 Decision”) directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance 8027. Petron, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow Petron, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the “February 13 Resolution”), the Supreme Court also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed Petron, Shell and Chevron to submit their relocation plans to the RTC. Petron, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, Petron, Shell and Chevron have submitted their relocation plans to the RTC.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 (“Ordinance 8187”), which repealed Ordinance 8027 and Ordinance 8119, and permitted the continued operations of the oil terminals in Pandacan.

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending as of March 14, 2011.

### **Executive Order No. 839**

On October 2, 2009, President Gloria Macapagal-Arroyo, under Proclamation No. 1898, declared a state of national calamity in view of the devastations caused by typhoon “Ondoy” and “Pepeng”. Allegedly in line with this proclamation, the President subsequently issued E.O. 839, mandating that prices of petroleum products being sold in Luzon be kept at October 15, 2009 levels. The oil companies, including the Petron, in compliance with E.O. 839, rolled back prices to October 15, 2009 levels.

Pilipinas Shell filed its Petition on November 9, 2009 seeking prohibition, mandamus and injunction with prayer for the issuance of a temporary restraining order and/or writ of preliminary injunction. On November 13, 2009, the Regional Trial Court of Makati issued a temporary restraining order for a period of 20 days and scheduled further hearings for the writ of injunction. On November 16, 2009, thru E.O. 845, the President lifted the price freeze under E.O. 839 and directed a task force to implement proposals promised by oil firms, including discounts and staggered-price adjustments.

### **Oil Spill Incident in Guimaras**

On August 11, 2006, M/T Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, capsized 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (“DOJ”) and the Special Board of Marine Inquiry (“SBMI”), both agencies found the owners of M/T Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Philippine

Department of Transportation and Communication and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, who are charterers.

### **Bataan Real Property Tax Cases**

Petron has three pending real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first is for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of P86.4 covering Petron's isomerization and gas oil hydrotreater facilities which enjoy, among others, a five -year real property tax exemption under the Oil Deregulation Law per the Board of Investments Certificates of Registration. The second is for an assessment made also in 2006 by the Municipal Assessor of Limay for P17 relating to the leased foreshore area on which the pier of Petron's Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of P2,168 allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron's non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Petron timely contested the assessments by filing appeals with the Local Board of Assessment Appeals ("LBAA"), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of Petron, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

The RTC issued a Decision dated June 25, 2010 upholding Petron's position and declared null and void the demand on Petron for the payment of realty taxes in the amount of P1,731 made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

### **Any significant elements of income or loss (from continuing operations)**

There are no significant elements of income or loss from continuing operations.

### **Seasonal aspects that has material effect on the FS**

There are no seasonal items that have material effect on the financial statement.

**All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.**

There are no off-balance sheet transactions, arrangements and obligations with unconsolidated entities or persons during the reporting period.

#### **Audit and Audit-Related Fees**

For the annual review of the financial statements, consultancy services on tax and other assurance related services, the Company paid its external auditors the amount of P3.6 million in 2009 and P45.1 million in 2010 (exclusive of VAT and out of pocket expenses).

Petron's external auditor is selected through sealed bidding wherein qualified auditing firms are invited to participate. For the audit of annual financial statements, award is endorsed by the Board Audit Committee. The Board of Directors, finding the recommendation to be in order, in turn endorsed the appointment or retention of the independent external auditor for approval/information of the stockholders during its annual meeting. Award of other related audit services is likewise done through sealed bids and is approved by the Audit Committee as endorsed by the company's Internal Audit Department.

## AUDIT COMMITTEE REPORT

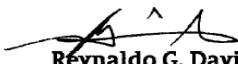
The Board of Directors  
Petron Corporation

The Audit Committee assists the Board of Directors in its oversight function with respect to the adequacy and effectiveness of internal control environment, compliance with corporate policies and regulations, integrity of the financial statements, the independence and overall direction of the internal audit function, and the selection and performance of the external auditor.

In the performance of our responsibilities, we report that in 2010:

- We reviewed and discussed with Controllers management the annual financial statement of Petron Corporation and Subsidiaries and endorsed these for approval by the Board.
- The Audit Committee endorsed and the stockholders approved the appointment of Manabat Sanagustin/KPMG as the company's new independent auditors for 2010. Accounting rules require the consolidation of results of operations and account balances of Petron with San Miguel Corporation after the latter exercised its full ownership option in Petron. Having a common external auditor will facilitate coordination among auditors of the parent company and its subsidiaries as well as expedite consolidation.
- The independent auditors, Manabat Sanagustin/KPMG, presented to and discussed with the Committee the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements.
- The Audit Committee reviewed with Manabat Sanagustin/KPMG, the external auditors' audit observations and recommendations on the Company's internal controls and management's response to the issues raised.
- The Committee reviewed with the Internal Audit Head and approved the annual internal audit plan and satisfied itself as to the independence of the internal audit function.
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.

All the four members of the Audit Committee are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2010.

  
**Reynaldo G. David**  
Chairperson  
Independent Director

  
**Estelito P. Mendoza**  
Director

  
**Aurora T. Calderon**  
Director

  
**Ferdinand K. Constantino**  
Director

## **Material Commitments for Capital Expenditure**

The Company funded a total of ₱13.96 billion, ₱13.23 billion for major projects and ₱0.73 billion for miscellaneous projects in 2010 through cash generated from the Company's operations and proceeds from recent borrowings.

Major capital projects include:

**Service station projects and LPG distribution facility.** ₱1.7 billion was allotted for the expansion of the service station network to augment market share and installation of LPG supply/distribution facility.

**Refinery investments.** A total of ₱11.3 billion was used for refinery projects, ₱11.1 billion of which was for the power plant while the balance was for maintenance related project and additional tank.

**Logistical projects.** ₱0.2 billion was funded for logistical projects that would improve cost efficiencies and revenue generation. These include additional tanks, expansion of receiving facility and security-related projects.

### **(B) Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

There are no changes in and disagreements with Accountants on Accounting and Financial Disclosure.

## PART IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS

### (A) Directors and Executive Officers of the Registrant

Described below are the business experiences of the company's Directors and Executive Officers for the past five (5) years.

#### Directors

**Ramon S. Ang**, Filipino, 57 years old, is the Chairman/Chief Executive Officer and Executive Director of Petron. He is the Chairman of the Board Executive Committee and Compensation Committee. He is also the Chairman of Las Lucas Construction and Development Corporation and New Ventures Realty Corporation and Chairman/CEO of Petron Marketing Corporation and Petron Freeport Corporation. He is the Vice Chairman of San Miguel Corporation (SMC) since January 1999 and President & Chief Operating Officer since March 2002, Chairman of Liberty Telecom Holdings Inc. since December 2008 and Vice Chairman of Manila Electric Company since December 2008. Other current positions include: Chairman and President of San Miguel Brewery Inc.; Chairman of San Miguel Properties, Inc., The Purefoods-Hormel Company, Inc., Anchor Insurance Brokerage Corporation and San Miguel Brewery Hongkong Ltd. (Hongkong), Philippine Diamond Hotel & Resort Inc., Philippine Oriental Realty Development Inc., Atea Terra Corporation and Cyber Bay Corporation; Director of Ginebra San Miguel Inc. and San Miguel Pure Foods Company Inc.; and Independent Director of Philweb Corporation. Previously, Mr. Ang was the Chief Executive Officer of the Paper Industries Corporation of the Philippines (PICOP) and Executive Managing Director of Northern Cement Corporation, Aquacor Food Marketing, Inc., Marketing Investors Inc., PCY Oil Mills, Metroplex Commodities, Southern Island Oil Mills and Indophil Oil Corporation. He has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

**Eric O. Recto**, Filipino, 47 years old, is the President/Executive Director of the Company. He is a member of the Board Executive Committee and the Nomination and Compensation Committees. He is also the Chairman/CEO of Petron Foundation, Inc.; Chairman of Petrogen Insurance Corporation and Overseas Ventures Insurance Corporation (Bermuda); and Director of Petron Marketing Corporation. He is currently a Member of the Board of Directors of San Miguel Corporation and the Manila Electric Company. He is also the Vice Chairman of Philweb Corporation, Atok-Big Wedge Corporation and Alphaland Corporation. Mr. Recto is also the Vice Chairman and President of ISM Communications Corporation, Top Frontier Investment Corporation, and Q-Tech Alliance Holdings, Inc. He was previously the Undersecretary of the Department of Finance, in charge of both the International Finance Group and the Privatization Office (2002-2005). Before his work with the government, he was the Senior Vice President and Chief Financial Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000). He was also a Vice-President in Bankers Trust Company for four years after graduate school. Mr. Recto has a degree in Industrial Engineering from the University of the Philippines and has a Masters degree in Business Administration from the Johnson School, Cornell University.

**Eduardo M. Cojuangco, Jr.**, Filipino, 75, is a non-executive Director of Petron. He is the Chairman and Chief Executive Officer of San Miguel Corporation and Ginebra San Miguel Inc.; Chairman of ECJ & Sons Agricultural Enterprises Inc., Eduardo Cojuangco Jr. Foundation Inc., and San Miguel Purefoods Company Inc.; and a Director of Manila Electric Company and Cainaman Farms Inc. Previously held positions include: President & Chief Executive Officer of United Coconut Planters Bank; President and Director of United Coconut Life Assurance Corporation and Governor of the Development Bank of the Philippines. Mr. Cojuangco was formerly a member of the House of Representatives (1970-1972), Governor of Tarlac (1967-1979) and Philippine Ambassador Plenipotentiary. He attended the College of Agriculture at the University of the Philippines - Los Baños and the California Polytechnic College in San Luis Obispo, U.S.A. and was conferred a post graduate degree in Economics, *honoris causa*, from the University of Mindanao.

**Estelito P. Mendoza**, Filipino, 81 years old, is a non-executive Director. He is a member of the Nomination and Audit Committees. He heads the law firm Estelito P. Mendoza and Associates and holds directorships in San Miguel Corporation; Philippine National Bank; Philippine Airlines Inc. and Prestige Travel Inc. He was previously the Chairman of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation and a Director of East West Bank. He also served the Philippine Government as a former Solicitor General (1972-1986), Minister of Justice (1984-1986), Member of the Batasang Pambansa (1984-1986) and Governor of the Province of Pampanga (1980-1986). His professional affiliations include membership with the Integrated Bar of the Philippines, the Philippine Bar Association, International Academy of Trial Lawyers (USA), and the American Society of International Law. He is known both here and abroad, consistently being listed as one of the “Leading Individual in Dispute Resolution” in the Philippines by the Asia Legal 500, among others. Mr. Mendoza took his pre-law course and Bachelor of Laws degree at the University of the Philippines. He also holds a Master of Laws degree from the Harvard Law School.

**Roberto V. Ongpin**, Filipino, 74 yrs. old, is a non-executive Director. He is a member of the Executive and Compensation Committees. He is currently the Chairman of the following corporations: Philweb Corporation, ISM Communications Corporation, Alphaland Corporation, Atok-Big Wedge Co., Inc. , Acentic GmbH (Germany) and Developing Countries Investment Corporation (Bahamas) and is Director of San Miguel Corporation, Ginebra San Miguel, Inc., and Top Frontier Investment Holdings Inc. He is also Non-Executive Director of Forum Energy plc (London) and Shangri-la Asia Limited (Hong Kong) and Deputy Chairman of South China Morning Post (Hong Kong). Mr. Ongpin joined SGV & Co. in 1964 and was Chairman and Managing Partner of the firm from 1970 to 1979. He served as Minister of Trade and Industry of the Republic of the Philippines from 1979 to 1986. Mr. Ongpin holds a Bachelor of Science in Business Administration, *cum laude*, from the Ateneo de Manila University. He is a Certified Public Accountant (CPA) and has an MBA from Harvard Business School.

**Bernardino R. Abes**, Filipino, 80 years old, has been a non-executive Director of the Company since July 2001. He is formerly the Chairman of the Government Service Insurance System and the Social Security Commission; and former Director of the Manila Electric Company, Philippine Stock Exchange, Union Bank of the Philippines, First Philippine Holdings, Philex Mining Corporation, Belle Corporation and Clark Development Corporation. He was the Presidential Adviser on Legislative Affairs and Head, Presidential Legislative Liaison Office in 2001. Other positions include: Consultant for the Philippine Senate (1992-1993), Director for Bureau of Labor Relations (1957-1961), Secretary of Labor (1962-1964), Administrator and concurrently Chairman of SSS (1963-1965). He graduated from the University of Santo Tomas with a Bachelor of Laws degree.

**Aurora T. Calderon**, Filipino, 56 years old, is a non-executive director and is a member of the Compensation and Audit Committees. She is also an alternate member of the Executive Committee. She is the Senior Vice President - Senior Executive Assistant to the President and COO of SMC since January 20, 2011. Previous to her appointment, she was a consultant of SMC reporting to the COO since 1998. She holds directorships in Petron Marketing Corporation, Petron Freeport Corporation, SMC Global Power Holdings Corporation, SEA Refinery Corporation, Thai San Miguel Liquor Co., New Ventures Realty Corporation, Ltd., Las Lucas Construction & Development Corporation, and Kankiyo Corporation. She is currently the President and Director of Total Managers Inc., a full-time Consultant to San Miguel Corporation (1998 to present). She was a former Director of MERALCO (January 2009-May 2009), Senior Vice President of Guoco Holdings (1994-1998), Chief Financial Officer and Assistant to the President of PICOP Resources (1990-1998) and Assistant to the President and Strategic Planning at the Elizalde Group (1981-1989). A Certified Public Accountant, she graduated *magna cum laude* from the University of the East in 1973 with a degree in Business Administration, majoring in Accounting and earned her Masters degree in Business Administration from the Ateneo de Manila University in 1980. She is a member of the Financial Executives and the Philippine Institute of Certified Public Accountants (PICPA).

**Mirzan Mahathir**, Malaysian, 52 years old, is a non-executive director of the Company. He is the Executive Chairman and CEO of Crescent Capital Sdn. Bhd. in Kuala Lumpur, a position that he has held

since 2007. Past positions include: Executive Chairman and President of Konsortium Logistik Berhad from 1992-2007; Executive Chairman of Sabit Sdn Bhd. from 1990-1992; Associate of Salomon Brothers in New York, U.S.A. from 1986-1990; and Systems Engineer at IBM World Trade Corporation from 1982-1985. He has held directorships in several Malaysian and foreign companies. He is also a member of several professional and non-profit organizations, most notably the UN/ESCAP Business Advisory Council; American Bureau of Shipping (ABS) Southeast Asia Committee; and Wharton Business School Asian Executive Board. Mr. Mahathir holds a Bachelor of Science degree in Computer Science from Brighton Polytechnic in the United Kingdom graduating with honors in 1982 and has a Masters in Business Administration degree from the Wharton School, University of Pennsylvania, USA (1987).

**Romela M. Bengzon**, Filipino, 50, is a non-executive director of the Company. She is a Director of Petron Marketing Corporation and the Managing Partner of the Bengzon Law Firm. Apart from her law practice, she is also a professor at the De La Salle University Graduate School of Business, Far Eastern University Institute of Law MBA-JD Program and the Ateneo Graduate School of Business and Regis University. She has been employed at various law firms and private corporations in the Philippines and abroad, having been admitted to both the Philippine and New York State bars in 1986 and 1994, respectively. She has served the government under the Department of Trade and Industry as one of the Philippine Government's Honorary Trade Ambassador to the European Union; Chairperson of the Committee on Economic Liberalization and Deputy Secretary General of the Consultative Commission, both under the Office of the President. She is presently a member of the Integrated Bar of the Philippines; American Bar Association; International Bar Association; New York State Attorney and the Australian-New Zealand Chamber of Commerce. A Political Science graduate of the University of the Philippines in 1980 (with honors), she obtained her Bachelor of Laws from the Ateneo de Manila University in 1985.

**Ferdinand K. Constantino**, 59 years old, Filipino, is a non-executive director of the Company. He is also a Director San Miguel Corporation (SMC) since 2010 and the Senior Vice President/Chief Finance Officer and Treasurer of SMC since 2001. He holds several directorships in San Miguel Brewery Inc., Ginebra San Miguel Inc., San Miguel Yamamura Packaging Corporation, Magnolia Inc., San Miguel Foods Inc. and Bank of Commerce; and is the President of Anchor Insurance Brokerage Corporation. Past positions include: concurrent Chief Finance Officer of San Miguel Brewery Inc. (2007-March 2009) and San Miguel Beer Division (1999-2005); Comptroller of SMC (1997-1999); Finance Director of San Miguel Brewing Group (1994-1997); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various subsidiaries of SMC, local and offshore, during the last five years. He holds a Bachelor of Arts degree in Economics from the University of the Philippines (1972) and took graduate courses in Economics (1972-1973) and Business (1977-78) from the same university.

**Virgilio S. Jacinto**, 54 years old, Filipino, is a non-executive director of the Company since December 2010. He is the Vice President/First Deputy General Counsel of San Miguel Corporation; a Director of FILSOV Shipping Company, Inc. and Ventures Securities Inc.; and Corporate Secretary of Ecofarm Systems and Resources, Inc., J&E Development Corporation, Jewelmer International Corporation, Terramar Aqua Resources, Inc. and Venture Securities, Inc. Mr. Jacinto is also an Associate Professor of the University of the Philippines' College of Law. Previously, he was a Director and Corporate Secretary of United Coconut Planters Bank (September 1998-February 2001); a Partner of the Villareal Law Offices (June 1985-May 1993); Associate of Sycip, Salazar, Feliciano & Hernandez Law Office (1981-1985) and Graduate Assistant at the UP Law Center (1978-1981). His memberships include the Integrated Bar of the Philippines, International Honor Society of the Phi Kappa Phi and the Harvard Club - Philippines. A consistent honor student (Latin honors), he obtained his degrees in Philosophy (1976) and Law (1981) from the University of the Philippines. He placed 6<sup>th</sup> in the 1981 bar exam. He also has a Master of Laws degree from Harvard University in 1984.

**Ron W. Haddock**, 70 years old, American, is a non-executive Director. He is an alternate member of the Executive Committee. He sits as Chairman of the Board of AEI Services, L.L.C., which he has occupied since September 2006. His other current positions include Chairman of Safety-Kleen Systems, Inc. and Rubicon Offshore International; Board member of Alon Energy USA and Trinity Industries, Inc.

He is Chairman of the governance committees for Safety-Kleen and AEI Services, LLC. Previously, he was Chairman and CEO of Prisma Energy International and FINA. He started his career with Exxon in 1963 where he progressed through various management positions including manager of the Baytown Refinery, Corporate Planning Manager for Exxon U.S.A., Vice President of Refining and Executive Assistant to the Chairman and Vice President and Director of Esso Eastern, Inc. Mr. Haddock is an active member of several industry and civic organizations in the U.S. and was a former Honorary Consul of Belgium in Dallas, Texas. He holds a degree in Mechanical Engineering from Purdue University.

**Joseph N. Pineda**, Filipino, 47 years old, non-executive director of Petron. He is currently the Senior Vice President and Deputy Chief Finance Officer of San Miguel Corporation (SMC). He has been with SMC since 2005, starting off as Vice President for Special Projects. Before joining SMC, he was President and Nominee of UCPB Securities to the Philippine Stock Exchange. He then moved on to United Coconut Planters Bank as Vice President in 2003 and was UCPB Savings Bank President in 2004. He holds several directorships in the SMC Group of Companies and elsewhere. Mr. Pineda holds a Bachelor of Arts degree in Economics at San Beda College and has taken units in Masters in Business Administration at De La Salle University.

**Reynaldo G. David**, Filipino, 68 years old, Independent Director. He is currently the Chairman of the Audit and Nomination Committees and a member of the Compensation Committee. Previously, he was the President & Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. Other past positions include: Chairman of LGU Guarantee Corporation; Vice Chairman/CEO and Executive Committee Chairman of Export and Industry Bank (September 1997-September 2004); Director/CEO of Unicorp Finance Limited and Consultant of PT United City Bank (concurrently held from 1993-1997); Director of Megalink Inc.; Vice President and FX Manager of the Bank of Hawaii (April 1984-August 1986); and various directorships and/or executive positions with The Pratt Group (September 1986-December 1992), a major industrial Australian firm based in Hong Kong; President & Chief Operating Officer of Producers Bank of the Philippines (October 1982-November 1983); President & Chief Operation Officer of International Corporation Bank (March 1979-September 1982); and Vice President and Treasurer of Citibank N. A. (November 1964-February 1979). A TOYM Awardee for Offshore Banking in 1977, he was also awarded by the Association of Development Financing Institutions in Asia & the Pacific (ADFIAP) as the Outstanding Chief Executive Officer in 2007. A Certified Public Accountant since 1964, he graduated from the De La Salle University with a Liberal Arts degree in Commerce in 1963 and has attended the Advance Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, *honoris causa*, by the Palawan State University in 2005.

**Artemio V. Panganiban**, 74 years old, Filipino, an Independent Director and member of the Audit Committee. He also sits as Independent Director of the following listed companies: Meralco; Bank of PI; First Philippine Holdings Corp.; Metro Pacific Investment Corp.; Metro Pacific Tollways Corp.; Robinsons Land Corp.; GMA Network; GMA Holdings; and Asian Terminals. He is a columnist for the Philippine Daily Inquirer and is an adviser/consultant in several business, civic, and religious organizations. He is formerly the Chief Justice of the Supreme Court of the Philippines. Prior to that, he was an Associate Justice of the Supreme Court from 1995-2005; Chairperson of the House of Representatives' Electoral Tribunal (2004-2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963-1995); President of Baron Travel Corporation (1967-1993); and professor of the Far Eastern University, Assumption Convent and San Sebastian College (1961-1970), among other positions he assumed in both public and private sectors. He is an author of several books and has received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21<sup>st</sup> Century" conferred by the Supreme Court in 2006, and the "Outstanding Manilan" for 1991 by the City of Manila. He earned his Bachelor of Laws degree, *cum laude*, from the Far Eastern University in 1960 and placed 6<sup>th</sup> in the bar exam that same year.

The Board is composed of the Executive, Compensation, Audit and Nomination Committees. Their composition are as follows:

**Executive Committee**

Ramon S. Ang	-	Chairman
Eric O. Recto		
Roberto V. Ongpin		
Ron W. Haddock	-	Alternate
Aurora T. Calderon	-	Alternate

**Compensation Committee**

Ramon S. Ang	-	Chairman (Non-voting)
Eric O. Recto		
Roberto V. Ongpin		
Aurora T. Calderon		
Reynaldo G. David		

**Audit Committee**

Reynaldo G. David	-	Chairman
Estelito P. Mendoza		
Ferdinand K. Constantino		
Aurora T. Calderon		
Artemio V. Panganiban		

**Nomination Committee**

Reynaldo G. David	-	Chairman
Eric O. Recto		
Estelito P. Mendoza		
Virgilio S. Jacinto	-	Advisor

**Other Executive Officers**

**Lubin B. Nepomuceno**, Filipino, 59 years old, is the Senior Vice President and General Manager of Petron Corporation and heads the Marketing, Supply and Refinery Divisions of the Company. He is also the President of Petron Marketing Corporation; director of Las Lucas Construction & Development Corporation, New Ventures Realty Corporation and Petron Freeport Corporation; and Trustee of Petron Foundation Inc. Other current positions include: Director in the Corporate Technology Group of San Miguel Food & Beverage International Ltd., and Thai San Miguel Liquor Co. Ltd; President of Archen Technologies, Inc.; Senior Vice President & Manager of Corporate Technical Services; and Board Member of San Miguel Yamamura Packaging Corporation. Previously, he was the Chairman of San Miguel Corporation Shipping & Lighterage. He has held various board and executive positions in the San Miguel group. Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and an MBA from the De La Salle University. He also attended trainings at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

**Emmanuel E. Eraña**, Filipino, 50 years old, is the Senior Vice President and Chief Finance Officer of Petron Corporation. He holds various positions in Petron's subsidiaries: Director of Petron Freeport Corporation; Deputy Chairman of Overseas Ventures Insurance Corporation; and President & CEO of Petrogen Insurance Corporation, Las Las Lucas Construction & Development Corporation, New Ventures Realty Corporation; and President of Petron Foundation, Inc. Prior to his transfer to Petron, he was the Chief Information Officer of the Corporate Service Unit of San Miguel Corporation. He began his career with San Miguel as a Finance Manager in 1998, then went on to hold other positions in the field of finance, namely: Finance Manager, San Miguel Foods, Inc. (Oct. -Dec. 1999); Finance & Management Services Officer, San Miguel Food Group (2000-2001); Finance Officer, San Miguel Purefoods Corporation (Jan. 2001-Jun. 2002); Chief Finance Officer, San Miguel Purefoods Corporation (Jul. 2002-

May 2005); Chief Finance Officer, SMFBIL/NFL Australia (May 2005-Nov. 2006); Executive Assistant to the Chief Financial Officer, Corporate Service Unit (Dec. 2006-Jan. 2008). Mr. Eraña has a Bachelor of Science degree in Accounting from the Colegio de San Juan de Letran.

**Ma. Cristina M. Menorca**, 55 years old, Filipino, is the Vice President for Human Resources. She is also a Trustee of Petron Foundation Inc. Prior to her present position she was the Vice President of Controllers for Petron and Controller for all Petron subsidiaries. She started her career with Petron in 1978 as a Financial Analyst and then held various supervisory positions before moving on to managerial posts which include: HR Manager - PNOG Marine Group of Companies (1990-1993); Purchasing Manager (1993-1995); SAP Project Manager (1995-1996); Business Systems Support Manager (1996-2001); HR Manager (2001-2008) and Financial Planning and Risk Management Manager and Special Assistant to the President and the Chairman (Oct. 2008-Nov. 2008); and Controller (November 2008). Prior to Petron, she was a Staff Auditor at SGV in 1976 and the Chief Accountant of San Beda College in 1977. She was awarded as the People Manager of the Year by the People Management Association of the Philippines (PMAP) in 2008 and was recently inducted as a Fellow in People Management by the Philippine Society of Fellows in Personnel Management. Ms. Menorca holds a Bachelor of Science degree in Commerce, major in Accounting, *magna cum laude*, from the University of Sto. Tomas and placed 18<sup>th</sup> in the 1976 CPA Board examinations.

**Freddie P. Yumang**, Filipino, 53 years old, is the Vice President for Refinery. He joined Petron as a Project Engineer Trainee in January 1982 then went on to assume various supervisory and managerial positions at the Refinery. He has been sent overseas on numerous occasions to lead technical teams for Foster Wheeler International (1998-1999) and Petronas Refinery in Malaysia (1987-1989) and has served as resource person and speaker at conferences in several Asian countries. Mr. Yumang is a registered and professional mechanical engineer (RME/PME) and is an active member of the Philippine Society for Mechanical Engineers (PSME) of which he served as National Director in 2006, 2007 and 2011. Among his most notable achievements were receiving a Plaque of Recognition from the ME Alumni Association of MIT in 2007 wherein he served as President from 2008 to 2009; and awarded as 2010 The Outstanding Mapuan (TOM) Awardee from National Association of Mapua Alumni; a citation as one of the Outstanding Mechanical Engineers (TOME) by the PSME in 2005; and an award as Outstanding President of PSME Bataan Chapter in 1995. He is a Mechanical Engineering graduate of the Mapua Institute of Technology and has MBA units from De La Salle University. He also attended the Basic Management and Management Development Programs of the Asian Institute of Management in 1992 and 2002, respectively, from which he received separate awards for Superior Performance.

**Ma. Rowena O. Cortez**, Filipino, 46 years old, is the Vice President for Supply and Operations. She is a Director of Las Lucas Construction & Development Corporation and Petron representative to the Management Committee of MHPI. She joined Petron's Marketing Division as a Market Planning Analyst in 1993 then moved on to several supervisory and managerial positions in Marketing, Supply and Operations, and Supply Divisions. She was also the Project Manager for the Demand Planner Implementation of Petron, and subsequently delivered a paper on this experience at the i2 Planet in Phoenix, Arizona (USA) in May 2005. She started her career with the PNOG-Energy Research and Development Center where she handled computer training, information system-related activities and various research work on new and renewable sources of energy. Ms. Cortez holds a Bachelor of Science in Industrial Engineering and an MBA from the University of the Philippines. She has attended local and foreign trainings and seminars on supply chain, petroleum and petrochemicals, including the prestigious Energy Course at the University of Oxford in Oxfordshire, UK in 2008.

**Susan Y. Yu**, Filipino, 34 years old, is the Company's Vice President for Procurement. She is a Trustee of Petron Foundation Inc., Director of Overseas Ventures Insurance Corporation, Ltd. (OVINCOR) and the Managing Director of Petron Singapore Trading Pte. Ltd. Prior to joining Petron, she held the position of Assistant Vice President & Senior Corporate Procurement Manager of San Miguel Brewery, Inc.; Assistant Vice President & Senior Corporate Procurement Manager of San Miguel Corporation's Corporate Procurement Unit; and Fuel Purchasing & Price Risk Management Manager of Philippine Airlines. She holds a Commerce degree in Business Management from De La Salle University and an

MBA from the Ateneo de Manila University, for which she was awarded a Gold Medal for Academic Excellence.

**Albertito S. Sarte**, Filipino, 44 years old, is the Vice President for Treasurers. He is also the Treasurer of all Petron subsidiaries. He joined San Miguel Corporation (SMC) in 1988 as Budget Analyst for Corporate Budget and was Assistant Vice President for International Treasury of SMC prior to moving to Petron. He graduated from the Ateneo de Manila University in 1987 with a Bachelor of Science degree in Business Management and has attended the Management Development Program of the Asian Institute of Management in 1995.

**Tomas S. Cadiz, Jr.**, Filipino, 49 years old, is the Vice President for National Sales. He is the Director of New Ventures Realty Corporation and the President of Petron Freeport Corporation. He has been with San Miguel Corporation's food business for 21 years. He held the position of Assistant Vice President and General Manager of San Miguel's Retail Business Cluster. He also worked in SG&V Management Services Division for 3 years and in First Pacific Metro Marketing for 2 years. A University of the Philippines Business Administration graduate, he also holds a Masters in Business Management degree from the Asian Institute of Management.

**Efren P. Gabrillo**, Filipino, 55 years old, is the Assistant Vice President for Controllers. He is also the Controller for all Petron subsidiaries and Director for Petron Singapore Trading Private Limited. He was the Manager of Internal Audit from April 2003 to August 2009 then moved on to becoming its Assistant Vice President. He began his career with Petron as an Auditor in 1977 then went on to assume positions in Accounting, Treasury, ITDTF, Materials & Services Procurement within a 30-year span. He worked with Pilipinas Shell from December 1975 to December 1976. A Certified Public Accountant, Mr. Gabrillo is a member of the Philippine Institute of Certified Public Accountants (PICPA) and the Institute of Internal Auditors (IIA) Philippines. He is a graduate of Bachelor of Science in Commerce, major in Accounting, from the De La Salle University in 1975. He also completed the Management Development Program of the Asian Institute of Management in October 2003 and has attended numerous trainings here and abroad.

**Joel Angelo C. Cruz**, Filipino, 49 years old, is the Company's Assistant Vice President - General Counsel and Corporate Secretary and Compliance Officer, Corporate Secretary and Compliance Officer of all Petron subsidiaries, a Trustee of Petron Foundation Inc., and Assistant Corporate Secretary of Manila North Harbour Port, Inc. Previously, he was the Assistant Corporate Secretary and Legal Counsel of Petron and Assistant Corporate Secretary of all subsidiaries. He joined the Company in 1989. He is a member of the Integrated Bar of the Philippines. Atty. Cruz holds a Bachelor of Arts degree in Economics from the University of the Philippines and a Bachelor of Laws from San Beda College.

### **(3) Significant Employees**

There is no significant employee or personnel who is not an executive officer but is expected to make a significant contribution to the business.

### **(4) Family Relationships**

Mr. Eric O. Recto, President and Executive Director of the company is the nephew of Mr. Roberto V. Ongpin who is also a Director.

### **(5) Involvement in Certain Legal Proceedings**

The company is not aware that anyone of the incumbent directors and executive officers and persons nominated to become a director and executive officer have been the subject of bankruptcy petitions or

pending criminal proceedings in court or have been by judgment or decree found to have violated securities or commodities law and enjoined from engaging in any business, securities, commodities or banking activities.

## **(B) Executive Compensation**

### **(1) Executive Compensation**

#### **Standard Arrangements.**

Petron's Executive Officers are also regular employees of the company and are similarly remunerated with a compensation package comprising of twelve (12) months base pay. They also receive whatever gratuity pay the Board extends to the managerial, supervisory and technical employees of the company.

The members of the Board of Directors who are not Executive Officers are elected for a term of one year. They receive remuneration for 12 months in Director's fees and gas allowance, in addition to compensation on a per meeting participation.

#### **Other Arrangements**

There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

#### **Employment Contract**

In lieu of an employment contract, the Directors are elected at the annual meeting of stockholders for a one (1) year term. Any director elected in the interim will serve for the remaining term until the next annual meeting.

<b>Compensation of Executive Officers and Directors</b>	
<b>For the period ending December 31, 2010</b>	
<u>Name</u>	<u>Principal Position</u>
Ramon S. Ang	Chairman
Eric O. Recto	President
Lubin B. Nepomuceno	General Manager
Emmanuel E. Eraña	Chief Finance Officer
Freddie P. Yumang	Vice President - Refinery
Tomas S. Cadiz, Jr.	Vice President - National Sales
Maria Rowena O. Cortez	Vice President - Supply
Albertito S. Sarte	Vice President - Treasurer
Susan Y. Yu	Vice President - Procurement
Maria Cristina M. Menorca	Vice President - HRM
Efren P. Gabrillo	Asst. Vice President - Controller
Jose Joel Angelo C. Cruz	Asst Vice President - General Counsel & Corporate Secretary
Bernardino R. Abes	Director
Romela M. Bengzon	Director
Aurora T. Calderon	Director
Eduardo M. Cojuangco, Jr.	Director
Ferdinand K. Constantino	Director
Ronald Haddock	Director
Reynaldo G. David	Director
Virgilio S. Jacinto	Director
Mirzan Bin Mahathir	Director
Estelito P. Mendoza	Director
Roberto V. Ongpin	Director
Artemio V. Panganiban	Director
<b>2010 (In PhP Million)</b>	
Total Comp - Top 5 Execs	71.83
Total Comp - Executives	103.28
Total Comp - Execs / Directors	113.80
Aggregate 09-10 (Top 5 Execs)	130.89
Aggregate 09-10 (Execs/Dirs)	218.62
<i>Projected:</i>	
Aggregate 10-11 (Top 5 Execs)	147.04
Aggregate 10-11 (Execs/Dirs)	235.72

**(C) Security Ownership of Certain Beneficial Owners and Management as of December 31, 2010**

Security ownership of certain record and beneficial owners of more than 5% of common shares as of December 31, 2010 are:

Title of Class	Name & address of record owner & relationship with issuer	Name of beneficial owner & relationship with record owner	Citizenship	No. of shares held	Percent
Common Shares	SEA Refinery Corporation 19/F Liberty Center, dela Costa St., Salcedo Village, Makati City Major Stockholder	SEA Refinery Corporation	Filipino	4,696,885,564	50.10%
Common Shares	Petron Corporation Employees Retirement Plan (PCERP) SMC-HOC, 40 San Miguel Avenue, Mandaluyong City	Petron Corporation Employees Retirement Plan (PCERP)	Filipino	2,276,456,097	24.28%
Common Shares	San Miguel Corporation SMC-HOC, 40 San Miguel Avenue, Mandaluyong City	San Miguel Corporation	Filipino	1,702,870,560	18.16%

\*SEA Refinery Corporation, Petron Corporation Employees Retirements Plan and San Miguel Corporation are the record owners. In 2010, the shares of SEA Refinery Corporation and former major shareholder SEA Refinery Holdings B. V. was voted by their proxy, Mr. Eric O. Recto.

Security ownership of directors and executive officers as of December 31, 2010 are:

Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership	Percent of Ownership
<b>Directors</b>				
Common	Ramon S. Ang	Filipino	1,000	0.00%
Preferred			-	
Common	Eric O. Recto	Filipino	1	0.00%
Preferred			300,000	
Common	Eduardo M. Cojuangco, Jr.	Filipino	1,000	0.00%
Preferred			-	
Common	Estelito P. Mendoza	Filipino	1,000	0.00%
Preferred			-	
Common	Bernardino R. Abes	Filipino	1	0.00%
Preferred			-	
Common	Roberto V. Ongpin	Filipino	1	0.00%
Preferred			-	
Common	Ron W. Haddock	American	1	0.00%
Preferred			-	
Common	Aurora T. Calderon	Filipino	1,000	0.00%
Preferred			-	
Common	Mirzan Mahathir	Malaysian	1,000	0.00%
Preferred			-	
Common	Romela M. Bengzon	Filipino	1,000	0.00%
Preferred			-	
Common	Ferdinand K. Constantino	Filipino	1,000	0.00%
Preferred			20,000	
Common	Virgilio S. Jacinto	Filipino	1,000	0.00%
Preferred			-	
Common	Joseph N. Pineda	Filipino	1,000	0.00%
Preferred			-	
Common	Reynaldo G. David	Filipino	1,000	0.00%
Preferred			-	
Common	Artemio V. Panganiban	Filipino	1,000	0.00%
Preferred			-	
<b>Executive Officers</b>				
Common	Lubin B. Nepomuceno	Filipino	5,000	0.00%
Preferred			19,000	
Common	Emmanuel E. Eraña	Filipino	20,000	0.00%
Preferred			-	
Common	Ma. Cristina M. Menorca	Filipino	200	0.00%
Preferred			3,000	
Common	Freddie P. Yumang	Filipino	-	0.00%
Preferred			10,000	
Common	Rowena O. Cortez	Filipino	8,580	0.00%
Preferred			1,000	
Common	Susan Y. Yu	Filipino	-	0.00%
Preferred			53,000	
Common	Tomas S. Cadiz, Jr.	Filipino	-	0.00%
Preferred			10,000	
Common	Albertito S. Sarte	Filipino	-	0.00%
Preferred			20,000	
Common	Efren P. Gabrillo	Filipino	8,001	0.00%
Preferred			1,500	
Common	Jose Angelo C. Cruz	Filipino	-	0.00%
Preferred			-	
<b>Directors &amp; Executive Officers as a Group</b>			<b>490,285</b>	<b>0.01%</b>

As of December 31, 2010, the total number of shares owned by the Directors and officers is 493,285.

## **(2) Voting Trust Holders of 5% or more**

None of the directors and officers owns 5% or more of the outstanding capital stock of the company. The company is not also aware of any person holding 5% or more of the company's outstanding shares under voting trust agreement.

## **(3) Changes in Control**

Prior to the entry of Ashmore, the Philippine National Oil Company (PNOC) and the Aramco Overseas Company B.V. (AOC) each owned a 40% share of equity. The remaining 20% was held by the general public.

On March 13, 2008, Aramco Overseas Company B.V., (AOC) entered into a share purchase agreement with Ashmore Investment Management Limited and subsequently issued a Transfer Notice to PNOC to signify its intent to sell its 40% equity stake in Petron. PNOC waived its right of first offer to purchase AOC's interest in Petron. Eventually, SEA Refinery Holdings B.V., a company incorporated in Netherlands and owned by funds managed by Ashmore Group acquired Saudi Aramco's 40% interest in Petron in July 2008. Under the SEC Rule, Ashmore was required to make a tender offer having acquired more than 35% of the shares of the company. A total of 990,979,040 common shares were tendered representing 10.57% of the total outstanding common shares of Petron. Together with the private sale of AOC's 40% interest in Petron, the Ashmore group, thru its corporate nominee SEA Refinery Holdings B.V., acquired 50.57% of the outstanding common shares in Petron.

In a later development, on October 6, 2008, PNOC informed Petron of its intent to dispose its 40% stake in the company. In December 2008, the 40% interest of PNOC in Petron was purchased by SEA Refinery Corporation, a domestic corporation wholly-owned by SEA Refinery Holdings B.V. In a related development, SEA Refinery Holdings B.V. sold a portion of its interest in Petron equivalent to 10.1% of the issued shares, to SEA Refinery Corporation. Thus, at the turn of the year, the capital structure of Petron was as follows: SEA Refinery Corporation - 50.10%; SEA Refinery Holdings B.V. - 40.47%; and the general public - 9.43%.

On December 24, 2008, San Miguel Corporation (SMC) and SEA BV entered into an Option Agreement granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary SRC. The option may be exercised by SMC within a period of two years from December 24, 2008 or until December 24, 2010. Under the Option Agreement, it was provided that SMC will have representation in the Petron Board and Management. In the implementation of the option agreement between SMC and SEA BV, SMC representatives were elected to the Board and appointed as senior officers last January 8 and February 27, 2009.

On April 30, 2010, SMC informed Petron of its intention to exercise its option to acquire forty percent (40%) of SRC's outstanding capital stock, with the remaining sixty percent (60%) to be exercised by SMC not later than December 23, 2010. SMC submitted its Tender Offer Report with the SEC, offering to acquire the common shares owned by the public. The tender offer period was opened from May 5 to June 2, 2010. A total of 184,702,538 Petron common shares tendered were crossed at the PSE on June 8, 2010, which is equivalent to approximately 1.97% of the issued and outstanding common stock of Petron.

On July 30, 2010, the Petron Corporation Employees' Retirement Plan (PCERP) bought 2,276,456,097 common shares in Petron comprising 24.025% of the total outstanding capital stock thereof from SEA Refinery Holdings B. V. The purchase and sale transaction was executed on the board of the Philippine Stock Exchange, at the price of ₱7.20 per share.

In relation to the option agreement outlined above, SMC exercised its option to acquire 40% of the

outstanding common stock of SEA BV on June 15, 2010. As a result of the exercise of the option and the acquisition of the tendered shares, SMC beneficially owns and controls 2,063,456,764 of the Petron's common shares or approximately 22% of the total outstanding common shares of Petron. Subsequently in September 2010, SMC purchased an additional 1,517,637,398 common shares of Petron from SEA BV.

In December 2010, SMC finally exercised its option to acquire the remaining 60% of SRC's shares.

## **(D) Certain Relationships and Related Transactions**

Petron Corporation has no transactions or proposed transactions with any of its directors or officers.

The major stockholders of the company are:

(a)	SEA Refinery Corporation	-	50.10%
(b)	Petron Corporation Employees Retirement Plan (PCERP)	-	24.28%
	San Miguel Corporation	-	18.16%

The basis of control is the number of the percentage of voting shares held by each.

Petron has been leasing from its previous major shareholder, PNOG certain parcels of land where its refinery and most of its bulk plants, terminals, and service stations are located. Petron has also been leasing from its affiliate, New Ventures Realty Corporation some parcels of land where some of its depots, terminals and many service stations are located. Under the Retail Trade Liberalization Law, Petron is allowed to engage in direct retail of its fuel products thru its subsidiaries, namely, PMC and PFC. PMC is also leasing service station sites from NVRC.

Also, Petron has been purchasing most of its crude requirements from Saudi Aramco, a previous major stockholder. The supply agreement with Saudi Aramco has been revised and will be renewed annually.

## **(E) Corporate Governance**

Petron's Board of Directors is composed of fifteen (15) members, two (2) of whom are Independent Directors. Currently, only two (2) of the members are Executive Directors, occupying the positions of the Chairman and the President of the company. The Board is responsible for overseeing management of the company. The members of the Board are carefully selected to ensure Petron's continued competitiveness in a manner consistent with its fiduciary responsibilities. The Board is further composed of the following committees, namely: the Nomination Committee, which handles the selection and pre-screening of nominations for directors; the Compensation Committee, which reviews and modifies, among others, the salary structures of officers holding position of Vice President or higher; the Audit Committee, which is in charge of reviewing the company's internal reports, rules and regulations that may impact on Petron's financial statements; and the Executive Committee, which allows its members to act on matters that otherwise require the immediate action of the Board.

In compliance with SEC Memo Circular No. 6, Series of 2009, amending SEC Memo Circular No. 2, Series of 2002, Petron further adopted revisions to its Corporate Governance Manual which was approved by the Board on October 21, 2010. The Manual recognizes and upholds the rights of every stockholder and reflects the key internal control features necessary for good corporate governance, such as the duties and responsibilities of the Board of Directors and Committees; active participation of Management in the operation of the company; organizational and procedural controls that are supported by an effective management information and risk management reporting systems; and

independent audit measures to monitor the Corporation's governance, operations and information systems.

#### **A. Stockholders' Rights**

The company recognizes the rights of stockholders to elect and replace directors. A director cannot be removed without cause and only with the affirmative vote of 70% of the total issued and outstanding stock. Minority shareholders are not deprived of representation in the Board and may propose agenda items for legitimate purposes and/or call a special meeting at written request of one or more stockholders holding at least 20% of the total issued and outstanding shares of the Corporation. Stockholders are likewise entitled to pre-emptive, appraisal and dividend rights as well as the right to inspection and information. The company sees to it that shareholder concerns, queries or requests are immediately attended to and that written communications, including notices of stockholders meetings, are promptly sent. Queries/requests may be coursed thru the company's website.

#### **B. Board of Directors**

Upon election, Petron Directors, including the Officers and employees, are made to sign Conflict-of-Interest & Undertaking Statements, disclosing their respective business interests, to ensure that these are not in competition with the business of Petron. To further strengthen their understanding and appreciation, they are also given the company's Code of Conduct & Ethical Business Policy at the start of their occupancy. Per By-Laws, the Corporate Secretary informs the Directors and Officers of the schedule of board meetings beforehand and board materials are released and distributed within a reasonable time before every meeting. All Directors, officers and senior managers are required to attend basic corporate governance seminar at SEC-accredited providers immediately upon assuming office.

#### **C. Disclosure & Transparency**

To instill a stable and transparent process of conducting its business and at the same time identify accountability at all times, a system of approvals is in place whereby only authorized officer(s) may approve a particular business transaction and only up to the authorized amount. Transactions with amounts exceeding the joint approval limit of the Chairman and the President are elevated to the Board for approval. Aside from the Corporate Governance Manual, several other manuals have been instituted by Management to establish company policies and guide the employees in carrying out their respective functions and duties, to address business operations and set contracting and bidding procedures, and to instill business ethics, office decorum and employee discipline.

Management continuously conducts periodic assessment and performance reviews through quarterly management and safety reviews. Thus, business performance (actuals vis-à-vis targets), compliance with business hurdle rates and financial parameters/ratios, as well as health, safety and environmental requirements are evaluated periodically.

Reports required to be given to the stockholders pursuant to its By-Laws and the Securities and Regulation Code and submissions to the SEC/PSE, including quarterly financial reports, annual report and disclosures, General Information Sheet (GIS), requests for explanation or information on news items are complied with. These disclosures may be accessed by the public at the company's website. Pursuant to the requirements of the Securities and Exchange Commission, the Corporate Secretary and Compliance Officer participated in the online Corporate Governance (CG) Scorecard Survey for publicly-listed companies in November 2010, a project of the Institute of Corporate Directors (ICD) in collaboration with PSE, SEC and the Ateneo School of Law; in December 2009, the record of attendance of Directors at Board/Stockholders Meetings for 2009; and in January 2010, the required yearly certification to the SEC/PSE on the compliance by the company with its Corporate Governance Manual.

Since 2005, Petron was adjudged as among the top 20 publicly-listed companies in good corporate governance. The most recent corporate governance rating was undertaken by the ICD in collaboration

with the Securities and Exchange Commission, Philippine Stock Exchange and the Ateneo Law School. The company was also cited by the Management Association of the Philippines as one of the top 20 companies with the best annual report in 2009.

With the election of Mr. Reynaldo G. David and Retired Chief Justice Artemio V. Panganiban as Independent Directors to the Petron Board; the election of members and alternate members, in proper cases, of the Audit, Compensation, Nomination and Executive Committees; the conduct of regular quarterly board meetings, special board meetings and board committee meetings and the faithful attendance of and proper discharge of duties and responsibilities of Directors at such meetings; the conduct of training/seminar for Corporate Governance for incoming Directors and Officers; and strict adherence to national and local laws pertaining to its business operations, including applicable accounting standards and disclosure requirements, the company is in compliance with its Corporate Governance Manual.

To further instill corporate governance in the company, it will continue to coordinate with accredited providers for the attendance of Directors/Officers in more extensive corporate governance programs to keep them abreast with the latest developments and best practices.

**List of Directors**  
(As of December 31, 2010)

	Directors	Board Meeting dates						Attended Basic CG Orientation	
		Mar. 29	Apr. 29	Jul. 29	Jul. 29	Jul. 29	Oct. 21		Dec. 1
1	Ramon Ang	√	√	√	√	√	√	√	√
2	Eric O. Recto	√	√	√	√	√	√	√	√
3	Eduardo M. Cojuangco, Jr.	x	√	√	√	√	√	x	√
4	Estelito P. Mendoza	√	x	√	√	√	√	√	√
5	Roberto V. Ongpin	x	√	√	√	√	√	√	√
6	Bernardino R. Abes	√	√	√	√	√	√	√	√
7	Seumas James S. Dawes*	x	x	x	-	-	-	√	√
8	Ron W. Haddock	√	√	√	√	√	√	x	√
9	Angelico T. Salud**	√	√	√	√	√	-	-	√
10	Reynaldo G. David	√	√	√	√	√	√	√	√
11	Aurora T. Calderon	-	-	-	-	-	√	√	√
12	Romela M. Bengzon	-	-	-	-	-	√	√	√
13	Mirzan Mahathir	-	-	-	-	-	x	√	√
14	Ferdinand K. Constantino	-	-	-	-	-	√	√	√
15	Virgilio S. Jacinto	-	-	-	-	-	√	-	√
16	Michael Moody***	-	-	-	x	x	x	-	√
17	Artemio V. Panganiban	-	-	-	-	-	√	√	√
18	Joseph N. Pineda	-	-	-	-	-	-	√	√

\* Replaced by Mr. Michael Moody at the July 29, 2010 Stockholders' Meeting.

\*\* Replaced by Retired Chief Justice Artemio V. Panganiban.

\*\*\* Resigned and subsequently replaced by Mr. Joseph Pineda.

## PART V - EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

#### Exhibits

- Exhibit 1 - Audited Financial Statements
- Exhibit 2 - Index to Financial Statements & Supplementary Schedules

#### Reports on SEC Form 17-C

1. Stockholders assent on the reclassification of unissued common shares into preferred shares
2. Invitation re PSE Trading Participants' Briefing on the Issuance of Preferred Shares
3. Capital Structure of Petron before and after amendment
4. Listing Ceremony on March 5, 2010 held at PSE
5. Signing of agreement with Vantage Stride for the purchase of shares in Petrochemical Asia (HK) Limited.
6. Date, Agenda and Record Date for the Annual Stockholders Meeting
7. 2009 Audited Financial Statements posting a net income of P4.3 Billion
8. Transfer to New Corporate Address
9. Endorsement of Nominees to the Board of Directors and the Final List of Candidates for Independent Directors
10. Appointment of New General Counsel & Corporate Secretary
11. Establishment of a Trading Subsidiary in Singapore
12. Approval of Terms of the USD\$350 Million Loan Facility
13. Declaration of Dividend on Preferred Shares
14. Amendment of the Articles of Incorporation and By-Laws to Increase the Number of Directors from Ten to Fifteen and to Adjust Quorum at Meetings of the Board of Directors to Eight
15. Transmittal of SMC's Tender Offer Report
16. Endorsement on the Election of Directors for 2010-2011
17. Appointment of Members to the Executive, Audit, Compensation and Nomination Committees
18. Investment on a Joint Venture Company between Petron and San Miguel Energy Corporation
19. Endorsement on the appointment of Manabat Sanagustin/KPMG as Independent External Auditor for 2010-2012
20. Declaration of cash dividend on common shares with record date of July 30, 2010 and payment date of August 16, 2010
21. Approval by the Stockholders of the Amendment of Petron's Articles of Incorporation and By-Laws increasing the number of Directors from ten to fifteen and to Adjust Quorum at Meetings
22. Appointment of Manabat & Sanagustin/KPMG as Independent External Auditor for 2010-2012
23. Election of Key Executive Officers for 2010-2011
24. Declaration of cash dividend on preferred shares with record date of August 10, 2010 and payment date of September 6, 2010
25. Transmittal of SMC's Change in Beneficial Ownership of Securities
26. Resignation of Dir. Angelico T. Salud as Independent Director
27. Resignation of Dir. Michael Moody as Director
28. Election of Retired Chief Justice Artemio V. Panganiban as Independent Director
29. Declaration of cash dividend on preferred shares with record date of November 16, 2010 and payment date of December 6, 2010
30. Transmittal of SMC's Changes in Beneficial Ownership
31. Election of New Petron Director
32. Appointment of Members to Various Board Committees
33. Transmittal of SMC's Changes in Beneficial Ownership

The Company submitted the following Press Releases:

1. PETRON COMPLETES 1<sup>ST</sup> PHASE OF RETAIL NETWORK EXPANSION PROGRAM; 200 NEW SERVICE STATIONS OPENED IN ONE YEAR
2. PETRON RETURNS TO PROFITABILITY WITH P4.3 BILLION INCOME IN 2009
3. PETRON SUCCESSFULLY COMPLETES LANDMARK PHP20 BILLION BOND OFFERING
4. PROMOTION OF NEW ASSISTANT VICE PRESIDENTS


**SIGNATURES**


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on APR 15 2011.

By:

  
**RAMON S. ANG**  
 Chairman/Chief Executive Officer

  
**ERIC O. RECTO**  
 President

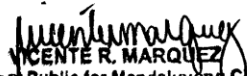
  
**EFREN P. GABRILLO**  
 Assistant Vice President - Controllers

  
**JOEL ANGELO C. CRUZ**  
 AVP - General Counsel &  
 Corporate Secretary

SUBSCRIBED AND SWORN to me this APR 15 2011 day of \_\_\_\_\_ 2011, affiants exhibiting to me their Community Tax Certificates, as follows:

Name	CTC #	Date of Issue	Place of Issue
RAMON S. ANG	Passport No. XX4227006	July 27, 2009	Manila
ERIC O. RECTO	05947854	Jan. 13, 2011	Makati City
EFREN P. GABRILLO	24405876	Feb. 25, 2011	Mandaluyong City
JOEL ANGELO C. CRUZ	20234968	Feb. 27, 2011	Manila

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 Book No. III ;  
 Series of 2011.

  
**VICENTE R. MARQUEZ**  
 Notary Public for Mandaluyong City  
 Notary Commission No. 0337-10  
 Until December 31, 2011  
 PTR No. 1852842 (Mand. City)  
 LRN-0183 05-25-00 Pasig City  
 Roll of Attorney No. 35074  
 SMC Head Office Complex,  
 48 SAN MIGUEL Ave., 1550 Mandaluyong City  
 MCLE Compliance No. III-0013481 04-21-10

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